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REINVENTING GOVERNMENT

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Reinventing Government, S.Hrg. 104-...

HEARINGS

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

JANUARY 25, 1995

WELFARE REFORM

FEBRUARY 2, 1995

INFORMATION SYSTEMS IN THE FEDERAL GOVERNMENT

Printed for the use of the Committee on Governmental Affairs



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REINVENTING GOVERNMENT WELFARE REFORM

WEDNESDAY, JANUARY 25, 1995

**U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
*Washington, DC.***

The Committee met, pursuant to notice, at 9:32 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Committee, presiding.

Members Present: Senators Roth, Cohen, Thompson Cochran, Grassley, Glenn, Levin, Pryor, Lieberman, and Dorgan.

OPENING STATEMENT OF CHAIRMAN ROTH, JR.

Chairman ROTH. The Committee will please be in order. We will follow the early-bird rule of calling on Members as they first appear.

Good morning. I do want to thank all of you for being here this morning as our Committee begins the first in a series of hearings on increasing the efficiency of the Executive Branch of Government and improving the effectiveness of Government programs.

The purpose of our hearings is to dig behind the surface, break through the crust and mantle, so to speak, and get to the core of what reinventing Government really entails.

Last night in the State of the Union address, President Clinton spent a substantial amount of time addressing the elimination of yesterday's Government in order to meet tomorrow's needs. And it is my sincere hope that his statement means that we can expect the Administration to work with Congress and apply that principle to our welfare system.

I firmly believe that the election results last November made it clear that the people of this country feel Government has grown too large, too centralized and too dictatorial, to maintain functions that are no longer relevant in today's world. That sentiment could not be more clear than in the Americans' public view of welfare programs. And frankly, taking a look at the current state of affairs in welfare is a concern that is well-grounded.

Typically when we talk about welfare, we are really only talking about the Aid to Families with Dependent Children program with an annual Federal expenditure over \$13 billion. In fact, the AFDC is just one of a vast array of Federal and State programs providing assistance to millions and costing billions each year. The actual Federal expenditure on all public assistance programs is estimated to be over \$200 billion, and the total cost of the Big Four of AFDC,

food stamps, Medicaid, housing assistance nets over \$130 billion a year.

Fifteen years ago, I asked the GAO to conduct a study on the full scope of assistance availability to low-income individuals and families through both State and Federal programs and to identify the average aggregate benefit payments.

Well, that study yielded some interesting and enlightening findings. Prime among them was the complexity of what I considered a rather straightforward and reasonable request. Within the confines of limited availability of data and a number of caveats, GAO was able to calculate what they call a monthly median income. We will hear more about the complexities and caveats from the GAO witness who is testifying this morning.

In 1986, given the growth of Federal entitlement expenditures, I asked GAO to update the 1979 calculations. This past year, given the increase in interest and push for welfare reform, I once again asked GAO to update the calculations.

Their most recent findings report a median monthly income of \$767. I believe GAO's work in this area is important to the welfare reform debate for a number of reasons.

First, as we approach welfare reform this session, it is critical that we understand exactly what programs we are including and should include in the reform effort.

Second, we must have a clear understanding of the cost of services provided by the system currently in existence.

And finally, given the amount of money we are spending and the number and variety of public assistance programs, why are we not getting better results?

The GAO report makes it clear to me that the failure of the current welfare system is not a lack of Federal money, but rather the structure of the system itself.

It is further my belief that the best way to determine the course we should follow in welfare reform is to find the success stories, the diamonds-in-the-rough that are yielding the kind of results we want. In so doing, we can restructure the system and create the kind of environment that will encourage and promote the kinds of programs that lead to the kind of positive results we seek and desire.

Such an examination should include discussion of the full range of possibilities, everything from giving States more flexibility to experimenting with block-granting programs. It should also include taking a closer look at the viability of multi-department administrations of an array of programs targeted at the same population. It should include a discussion of the principles and goals that should drive the welfare system.

As one Senator who has long supported a strong work component in welfare, I am pleased that there now seems to be a consensus that the success of the welfare system should be judged by how many people leave welfare for gainful employment. Therefore it is essential that we find out why some welfare work programs do, in fact, work; what are the necessary elements that must be present in order to make further gains; and what has experience taught us about the pitfalls that we should take care to avoid.

I am extremely pleased that we have so many knowledgeable witnesses with us today, who offer different perspectives on the questions I have raised.

[The prepared statement of Senator Roth, Jr. follows:]

PREPARED STATEMENT OF SENATOR ROTH, JR.

ROTH EXAMINES STRUCTURE OF WELFARE SYSTEM

WASHINGTON—The following is the opening statement of Governmental Affairs Committee Chairman William V. Roth, Jr. at the Committee's hearing on restructuring the welfare system:

Good morning and thank you all for being here this morning as this Committee begins the first in a series of hearings on increasing the efficiency of the Executive Branch of Government and improving the effectiveness of Government programs. The purpose of these hearings is to dig beneath the surface, break through the crust and mantle, so to speak, and get to the core of what reinventing government really entails.

Last night, in the State of the Union address, President Clinton spent a substantial amount of time talking about "getting rid of yesterday's government to meet tomorrow's needs." It is my sincere hope that his statements mean we can expect the Administration to work with Congress to apply that principle to our welfare system.

I firmly believe that the election results last November made clear that the people of this country feel government has grown too large, too centralized, too dictatorial and has maintained functions that are no longer relevant to the world today. No place is that sentiment more clear than in the area of the American public's view of welfare programs. And frankly, taking a look at the current state of affairs in welfare, it is a concern that is well grounded.

Typically, when we talk about "welfare," we are really only talking about the Aid to Families with Dependent Children program with an annual Federal expenditure of over \$13 billion. In fact, the AFDC program is just one of a vast array of Federal and State programs providing assistance to millions and costing billions each year. The actual Federal expenditure on all public assistance programs is estimated to be over \$200 billion. Totalling up the "big four" of AFDC, Food Stamps, Medicaid and housing assistance nets a total of over \$130 billion a year.

Fifteen years ago, I asked the General Accounting Office to conduct a study of the full scope of assistance available to low income individuals and families through both State and Federal programs, and to identify the average aggregate benefit payments. That study yielded some interesting and enlightening findings. Prime among them was the complexity of what I considered a rather straightforward and reasonable request. Within the confines of limited availability of data and a number of caveats, GAO was able to calculate a "monthly median income." We will hear more about the complexities and caveats from the GAO witness who is testifying this morning.

In 1986, given the growth of Federal entitlement expenditures, I asked GAO to update the 1979 calculations. This past year, given the increasing interest and push for welfare reform, I once again asked GAO to up-date the calculations. Their most recent findings report a "median monthly income" of \$767.

I believe GAO's work in this area is important to the welfare reform debate for a number of reasons. First, as we approach welfare reform this session, it is critical that we understand exactly what programs we are including and should include in the reform effort. Second, we must have a clear understanding of the cost of and services provided by the system currently in existence. And finally, given the amount of money we are spending and the number and variety of public assistance programs, why aren't we getting better results?

The GAO report makes it clear to me that the failure of the current welfare system is not a lack of Federal money but rather the structure of the system itself. It is further my belief that the best way to determine the course we should follow in welfare reform is to find out the success stories—the diamonds in the rough—that are yielding the kind of results we want. In so doing, we can restructure the system to create the kind of environment that will encourage and promote the kinds of programs that lead to the kind of positive results we seek and desire.

Such an examination should include discussion of the full range of possibilities—everything from giving States more flexibility to experiment to block granting programs that are now largely dictated from the Federal level. It should include taking a closer look at the viability of multi-department administration of an array of pro-

grams targeted at the same population. It should include a discussion of the principles and goals that should drive the welfare system.

As one Senator who has long supported a strong work component in welfare, I am pleased that there now seems to be a consensus that the success of the welfare system should be judged by how many people leave welfare for gainful employment. Therefore, it is essential that we find out why some welfare work programs do, in fact, work. What are the necessary elements that must be present in order to make further gains and what has experience taught us about the pitfalls that we should take care to avoid.

I am well aware that the approach I have laid out here is not as glitzy or catchy as some of the approaches currently being put forth. Rather, it is an approach that takes very seriously the charge of this Committee to engage in oversight of the efficiency and effectiveness of the Federal Government. It is, in my opinion, quite simply, the stuff that success, progress and reforms are made of.

I am extremely pleased we have so many knowledgeable witnesses with us today who offer different perspectives on the questions I have raised.

Senator ROTH. Senator Glenn.

OPENING STATEMENT SENATOR GLENN

Senator GLENN. Thank you very much, Mr. Chairman.

I want to congratulate you. I think it is excellent that we are having this hearing. It is an informational hearing. We are not taking up specific pieces of legislation. We know that welfare reform is going to be high on the agenda of the Congress and of the American people this year.

And I think it is excellent that we are scheduling this hearing to get as much background information, and have as many expert witnesses, as we possibly can have. And I appreciate all of the people who have made an effort to be here this morning and share their expertise with us to examine ways in which the Federal Government's welfare programs might be streamlined into a more workable, common-sense, and cost-effective system.

The underlying principle of our Nation's welfare system must be to provide effective assistance to those most in need. We want a safety net for America's families and children where assistance programs provide a lifeline when a parent loses a job or a senior citizen needs a small pension supplement; in other words, address the specific needs of the people and have programs that are flexible enough to do that.

What we do not want is a welfare system that is fragmented, burdensome, overlapping, and undermines work and parental responsibilities. We want a system that provides the tools and incentives for welfare recipients to move to economic independence.

Mr. Chairman, I am particularly pleased to see an Ohio witness at today's hearing. While Ms. Jane Campbell is here to testify as President of the National Conference of State Legislatures, she is also a very recognized figure in the State of Ohio where she serves as the Deputy Minority Leader in the Ohio House of Representatives. So I certainly look forward to her testimony.

Let me say one other word about Ohio. There is a unique program in Cleveland. It is called "Learning, Earning, and Parenting." The acronym for it is LEAP—"Learning, Earning, and Parenting."

Its central goal is to entice teenage welfare mothers to complete their high school degree or receive an equivalency diploma. The idea is that this education can help these young women move off welfare and into the job market.

LEAP provides child care, if these mothers regularly attend school and a monthly bonus then of \$62. Failure to attend school means that their welfare checks are docked \$62 a month. In other words, under LEAP monthly checks vary from \$212 with penalty to \$336 with the bonus.

I mention this program because it shows promise in giving and getting people the tools they need to help themselves.

There was an article about this program in last September 20's edition of *The New York Times* called "Teenage Mothers Helped by Ohio Plan, Study Finds," and it says: A carrot-and-stick approach is pushing more young women to finish high school.

And it is being closely watched, and it seems to be having very, very good results, and I would ask unanimous consent that I be able to place this in the record, Mr. Chairman, at the end of my statement.¹

Chairman ROTH. Without objection.

Senator GLENN. Mr. Chairman, I will not be able to be here for all of the hearing today. We still have the unfunded mandate legislation on the floor, managing that over there, and so I will have to leave shortly to go over there. But I will be back as much as I can during the hearing, and I want to congratulate you again for holding it. I think it is good that we are getting on top of this and getting as much background early in this year as we possibly can.

Thank you.

Chairman ROTH. Thank you, Senator Glenn. Senator Cohen.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Thank you, Mr. Chairman. I have a formal statement I would like to enter into the record and perhaps just summarize some of the key points.

Chairman ROTH. Without objection.

Senator COHEN. I think it is clear that this is to be the first of, I would assume, a series of hearings with the subject of welfare reform, and I think that all of us are going to be bombarded with theories and strategies—and I suspect even theologies about the subject matter.

I would hope that we would approach this with a good deal of humility.

Professor James Q. Wilson of UCLA, a critic of the current system, indicated: We are not in a position to be able to predict the consequences of any of our solutions; we do not know what the consequences will be of any of our proposals, and we should admit that in the beginning.

Second, I think it is clear also that any attempt at reform is going to be attacked as either being mean-spirited, callous, or in some cases even racist. Notwithstanding the attacks that will be leveled, we need to continue investigation of ways in which we can make a more constructive proposal for our citizens.

I think all of us have become familiar with the expression that was created by one writer several years ago, writing in *The National Journal* in which the author talked about "demosclerosis," that our democratic system—the arteries of our democratic system

¹ The article appears in the Appendix on page 381.

have become so clogged with special interests that would fight to protect the permanence of the programs, even though those programs may have become completely outmoded and inefficient and wasteful.

A book was written some years ago that has remained on my bookshelf, written by John Gardner. It was called *The Recovery of Confidence*. I think it was written back in 1968. And in that book, Gardner said: "Our institutions have become caught in a savage crossfire between uncritical lovers and unloving critics, that at one end of the spectrum we had the people who were so enamored with the status-quo they would do everything they could to blunt and nullify and stultify any attempt to change, and at the other end of the spectrum were those unloving critics, people who saw absolutely no virtue or benefit in present programs and had nothing in the way of constructive proposals to announce, but simply wanted to tear down what currently existed."

And so I think one of our struggles has to be to try to strike the balance between the need to reform and the need to retain. And that is the spirit in which I hope we will pursue this hearing and the ones that will follow.

I also think we have to restore the virtue and the dignity that we once associated with work. I see a lot of young faces in the audience today. It is unusual to see this many young people attend the hearings of the Government Affairs Committee, and it is a welcome sight indeed.

Back in 1975, for those of you who were not perhaps even born at that time, I was sitting on a hearing in the House of Representatives. It was being chaired by Claude Pepper at that time; it was the Committee on Aging. We had a witness who came before the Committee; his name was Will Geer and he played Grandpa Walton on a then popular television series. And what he was fighting for at that time was a removal of the restriction that we placed on people who had turned 65; they automatically were forced into retirement.

And I will never forget the sight of Grandpa Walton at that table. And he said very passionately: "A person has to have a podium to pound on; if you take that podium away, you take away that person's zest for life and reason for living. So please do not force us into retirement; let us work."

And as a result of that and other testimony, we indeed changed the law, because people saw the dignity, the vitality, associated with work.

On a more personal level, let me say I turned to my own family. I have talked about it on many occasions on this Committee and elsewhere.

My father recently turned 86. He continues to work 18 hours a day, 6 days a week, along with my mother who is in her—I will be kind—in her 70's, who works with him. And they are revered in my hometown, not only because of the product which they produce with their hands, but because even in sub-zero weather they continue to pull on the oar of society. And so we have to restore a sense of dignity that is associated with work.

Now welfare, as the Chairman has said, is supposed to be a temporary safety net. It is not supposed to be a cement floor on which

we construct housing, that simply nurtures future dependency, that provides a breeding ground for illegitimacy or drug addiction or violence. Something has gone wrong with the current systems in terms of the incentives we provide.

For example, last year in an investigation by the Senate Special Committee on Aging, we found how a program born out of compassion can be abused. We found that the Social Security Disability Insurance program and the SSI program, which allow benefits to be given to alcoholics and other substance abusers on the basis of their addictions have been grossly abused.

We have 250,000 known alcoholics and addicts now receiving benefits in these programs. Of those 250,000, only 78,000 were required to seek treatment. Of the 78,000 required to seek treatment, only about 8,000 or 9,000 were seeking treatment.

So out of these \$1.2 billion programs, we found that much of that money was going to the purchase of alcohol or the purchase of drugs. And so the system said: If you are an addict, addicted to alcohol or cocaine or heroin or whatever it is, as long as you stay addicted, the money will keep coming. And if you get off the addiction, the money stops.

In much the same way, we have a system which was never intended this way in our welfare programs, but to say to teenage mothers, for example—they do not get pregnant for the purpose of simply getting a welfare check, but the fact is that once they do get pregnant and have a child, society says you will have the taxpayers pick up cash benefits for you or food stamps or housing or other types of needs.

And so something has gone wrong with the incentives. We have got to change the incentives in a way that restores, as I indicated, the dignity of work and to avoid minimizing the adversities that follow irresponsible acts. I think that is what President Clinton was talking about last night, opportunity but also personal responsibility, because what we are witnessing in this society is what an author has called "compassion fatigue"; our hearts are growing hard toward those who are afflicted with misfortune.

So, Mr. Chairman, I hope that through this hearing and others we will seek to restore the goal of making people self-sufficient and proud and restore the civic virtue of working and labor itself.

Thank you very much.

[The prepared statement of Senator Cohen follows:]

PREPARED STATEMENT OF SENATOR COHEN

Good Morning. I want to thank the Chairman for holding this morning's hearing to address the critical issue of welfare reform.

As we embark on efforts to reshape the welfare system, there are a few observations that I would offer to the debate.

First, clear and simple, we do not know for certain what will work to fix the major problems that now exist in our society today.

In the coming months of debate, we will be bombarded with theories, strategies, analyses, and even theologies, on how to heal the deep wounds of our society—drug abuse, crime, teen pregnancy, irresponsibility—that have been, at least in part, inflicted by the welfare system and that are scarring the lives of individuals and our society as a whole.

We must, as UCLA professor James Q. Wilson, recently stated, not be afraid to confess that we cannot predict the causes of our actions or that we "don't know."

Second, it is important to point out that honest efforts to reform the welfare system will be branded by some as anti-poor, callous, or even racist. While some of

these challenges may reflect sincere concerns, others are simply attempts to derail reforms that threaten to disrupt a system that has become a way of life for those who benefit from the current welfare programs.

The fact that our motives may be challenged must not lessen our resolve to take on these problems.

We must seek the proper balance of defending and criticizing the institutions we have created. As John Gardner wrote, "We find our institutions caught in a savage crossfire between uncritical lovers and unloving critics. On the one side, those who love their institutions tend to smother them in an embrace of death, loving their rigidities more than their promise, shielding them from life-giving criticism, on the other side there has arisen a breed of critics without love, skilled in demolition but untutored in the arts by which human institutions are nurtured and strengthened and made to flourish."

Mr. Chairman, far from encouraging self sufficiency, the current welfare system in America, to an alarming degree, discourages characteristics upon which this country was built—independence and hard work. Consequently, the many rewards that come from work—self esteem, financial gain, contributing to the well being of one's family—are absent from the lives of many welfare recipients today. The loss of these virtues is taking a serious toll on communities across our Nation, and indeed, our entire society.

Instead of providing a temporary safety net, these programs have become for to many people the concrete floor of a building that houses drug abuse, illegitimate births, crime, and despair.

Last year, a vivid example of how our welfare system fosters dependency came to light through an investigation that I conducted with GAO of the social security disability program. We found that drug addicts and alcoholics have been using their disability checks to shoot more drugs into their veins and to buy more alcohol—rather than to receive treatment.

In its "compassion" to help drug addicts and alcoholics, the Federal Government had unwittingly become an enabler of these addicts. The message to addicts has been "continue to drink and take drugs and the money will flow—but if you stop using drugs and alcohol, you will lose your benefits." It's no wonder this program has become the program of choice for some on the streets.

Similarly, the Federal policy of granting entitlements to welfare benefits presents young girls with the following proposal: Have a child out of wedlock, and taxpayers will guarantee you cash, food stamps, and medical care, plus a host of other benefits. As long as you stay single and don't work, we'll continue providing benefits and if you have another child out of wedlock your benefits will increase.

While young women may not have babies simply for welfare benefits, we have created a perverse social contract that inappropriately connects child-bearing and welfare. We have minimized adversities following irresponsible acts.

Allowing such incentives to continue not only ruins lives and families, but takes an irreparable toll on the public's desire to help those in need. As Marvin Olasky's recent book entitled *The Tragedy of American Compassion*, correctly points out, around the country we are witnessing "compassion fatigue" as taxpayers tire of seeing generosity misused or, apparently, of no use. As Ellen Goodman noted, "Generosity turns into resentment and sympathy can turn hard."

Mr. Chairman, society is only beginning to cope with the realities of what it means to our country's future that one of every four U.S. children is born out of wedlock. These realities hit home when we understand that almost three-quarters of adolescent murderers, and the same percentage of long-term prison inmates are young males who grew up without fathers in the house.

We do not know whether the phenomenon of out of wedlock births and fatherless homes is an inevitable part of modern societies or whether improved education, the availability of jobs, strict paternity and child support enforcement and welfare reform can do something to reverse the trend.

What we do know, however, is that despite an enormous investment—in 1992 total welfare spending by Federal, State and local governments reached a record high of \$304.6 billion—we have a welfare system in this country that produces little success and is plagued by chronic dependency.

Rather than reduce the number of poor children, welfare programs continue to expand, and child poverty has actually increased since the creation of the great society programs in the 1960's.

Our past efforts to reform the welfare system have failed. For example, in 1988 the Family Support Act imposed work requirements on welfare recipients for the first time, but so many recipients are exempted from the rules that they effect less than 5 percent of eligible participants. In addition, funds to carry out all provisions of the act have been insufficient, both at the State and Federal levels.

As the debate is being shaped in this Congress, it is clear that we must identify the appropriate division between the Federal and State Governments in the structure of welfare; the problems and benefits in converting entitlement programs to block grants to the States; how spending caps would work in times of economic decline; and how the Congress can stimulate community and the private sector to create a system which will have the support of the public and is socially constructive.

In undertaking this debate, however, we cannot guarantee that changes we propose will be the panacea for what ails our society.

As long as we keep in focus that our goal is not merely to save money or to punish welfare cheats, but rather to restore faith in our system, get people to work and instill dignity to individuals and families, we should not be condemned for lacking all the answers, but we would warrant condemnation if we ignore what our current policies are doing to ourselves and our future generations.

Chairman ROTH. Thank you, Senator Cohen.

As I announced earlier, we will follow the early-bird rule. So next will be Senator Thompson.

OPENING STATEMENT OF SENATOR THOMPSON

Senator THOMPSON. Thank you, Mr. Chairman.

I, too, am going to have to leave shortly. I am going to be a witness, as a matter of fact, before the Constitution Subcommittee in Judiciary.

But I want to commend the Chairman for scheduling these hearings. Obviously this is going to be one of the most important topics that the United States Congress takes up this year.

We have talked a lot about programs, what programs work and do not work, but I think that his indication of the progress we are making perhaps is the realization and coming to terms with the fact that we are dealing with a subject here that in very many respects simply has not worked, and not only that, has done a great deal of harm.

And when you contemplate the notion of the United States Government putting so much effort and so many dollars into a program that has actually in many cases—has been producing so much harm, that is a very serious matter indeed—not only harm with regard to the people who are on the program and the dependency that is created and the generational problem that is enhanced by it, but those who are not on the program, who are not beneficiaries of any of the programs.

As I have traveled around this last year in Tennessee campaigning, time and time again I would see young people, young mothers, working at restaurants in low-income jobs, never having been on welfare, perhaps having a child or two, but somehow managing and working long hours. And talking to them on more than one occasion, I have heard them recount the fact that it seems like that the person down the street who has never worked and who continues to have children are making out in many cases better than they are.

There is just something simply fundamentally wrong with that, and it produces residual detrimental benefits to society that are hard to measure in terms of resentment from one group of people toward another.

That is not good. And I think that it is going to have to bring about and perhaps has already brought about some fundamental changes in the way that we think about this entire problem.

The thing about it to me that is most stark is that there is no easy solution. If there was, something would have been done about it on a more fundamental basis a long time ago. We meet ourselves coming back. It seems that every time we want to provide an inducement to someone who perhaps is not conducting themselves as they should, we at the same time are hurting someone who is innocent, usually a child.

So it is going to be difficult. There is not going to be an easy solution. There is not going to be a solution that does not run the risk of harming innocent people.

But we are taking it up now. I think we are focused on it. I think this Committee is focused on it. And I look forward to being a part of that process, Mr. Chairman.

Chairman ROTH. Thank you.

Senator Pryor.

OPENING STATEMENT OF SENATOR PRYOR

Senator PRYOR. Mr. Chairman, I want to thank you for holding this hearing and focusing on this particular issue. I think it is very timely. The President talked about it last night in his address to the country.

Mr. Chairman, I want to welcome, as I know all of us do, our new Member of the Committee, Senator Thompson of Tennessee. Senator Thompson was not here last year when this Committee held some hearings on this issue.

One of the areas that I have been particularly interested in is the area of child support enforcement.

One of the hearings held last year demonstrated that we have had, since 1980, I believe, a 180 percent increase in child support caseload. We are really struggling, trying to find the proper mechanism of getting people to pay their child support payments.

The other issue that struck me is the fact that the default rate in America for used-car loans is 3 percent today. The default for child support payments is over 50 percent.

Now, something has got to change. I think that we have got to make these programs work, by improving the relationship between the States and the Federal Government, because this is a joint effort.

Mr. Chairman, this afternoon I will be releasing a GAO report, "Child Support Enforcement", I think very splendidly prepared by the General Accounting Office.

I want to compliment Jane Ross, who is going to be our lead-off witness this morning, who has been very, very instrumental in efforts to improve child support enforcement. Mr. Chairman, I would like to ask unanimous consent that I may publish in this hearing record not the entirety of the report, but the summary of the GAO report and the results of their findings.¹

Chairman ROTH. Without objection.

Senator PRYOR. Mr. Chairman, once again I thank you, sir.

[The prepared statement of Senator Pryor follows:]

¹ The GAO Summary Report entitled "Child Support Enforcement" appears on page 382.

PREPARED STATEMENT OF SENATOR PRYOR

Mr. Chairman, I want to commend you for holding this hearing on the extremely timely issue of welfare reform. I especially want to commend you on the focus of this hearing which is how well the welfare system is working. It is clear that the present system doesn't effectively and efficiently serve either the needy or the taxpayers.

Last year I examined one piece of the welfare system, the child support enforcement program, to seek to determine what the barriers were that prevented billions of dollars from being collected from delinquent parents. That examination, and the subsequent report by the GAO, has lead me to conclude that both the taxpayer and the needy would benefit from a more effective system.

I was shocked to learn that the default rate for used car loans is 3 percent, but the default rate for child support payments is 50 percent. This is unacceptable.

The reason that it is important to make sure our child support enforcement system is working is that 23 million children were owed \$34 billion in uncollected child support in 1992. The majority of those children live in homes that receive some kind of welfare assistance. So, unless we better enforce the basic responsibility of parents to support their children with an effective child support system, we will continue to pass that obligation onto the taxpayers.

Mr. Chairman, it is critical that as we begin the legislative debate to reform our welfare system, this Committee continue to examine how the system is actually working, or not working. What my look at the child support enforcement system makes clear is that if we merely legislate another layer of reforms on top of a broken system, our efforts will fail.

Chairman ROTH. Senator Lieberman.

OPENING STATEMENT OF SENATOR LIEBERMAN

Senator LIEBERMAN. Thank you, Mr. Chairman. Thank you for convening these hearings. This is the Committee that has some original jurisdiction in subject matter, but whose role I have always seen as really focusing on the structure of Government and on the way that Government works and trying to make it work better. That was obviously the focus of the President's remarks last night and is and should be a focus of this Congress.

There is no single program that I can think of that the Government runs that is more consequentially inefficient and not working as we want it to than the welfare program. It has been a disaster, though born of good intentions, for those who are on it and those of the rest of us who pay for it. And it is at the heart of so much of the public cynicism toward Government and outrage about values in society.

Senator Thompson mentioned his conversations with people last year. You run into people—and I do not speak for the validity of this, but just present it as evidence of how important our work here is—people like the waitress, like people working on the lines in factories who will say: Look, I am working hard, my spouse and I are, and we would like to have another a child, but we cannot afford it.

And then I look here and I see somebody on welfare that just goes ahead and has a child whether she can afford that or not. And therein lies the source of a lot of outrage in the middle class that is serious for our society.

So this is a program that really is at the center of our mission, and I appreciate what you are doing here today.

I want to say two brief words. And I have spent a lot of time in this area over the last several years.

One is that while we know that the current welfare program is a failure, I do not have the sense that we know with a great degree

of confidence what will work better. And I think as we go forward in this reform effort, we have to go forward, as Senator Cohen said, quoting James Wilson, "with a sense of humility, combined with a sense of boldness," because this is a program that needs drastic revision.

But if we act without our heads here, we are going to end up replacing one disaster with another disaster, and I do not think any of us want to do that.

I introduced legislation last week, S. 246, which stated very briefly simply says two things.

One is, the States are doing some great work here in trying to make welfare work better. And because we have so little confidence about which programs work, maybe the best thing we can do is to let the States test the boldest array of ideas, including some of those that have been most controversial, that are part of the Contract With America, including the end of the AFDC program or providing institutional alternatives, call them orphanages, if you want, in some cases.

But because we really do not know whether those programs or ideas will have the effects that their sponsors intend, let us try them in three, four, or five States for a period of time and see how they work, and now let us set up a mechanism where the Secretary of HHS, perhaps GAO, report back to us regularly and recommend when they think something is working well enough to be imposed nationally.

I also feel very strongly that while the States are doing a great job, we would not be true to our purpose or our national values if we simply took the welfare program and said: Here, Governors, State legislators, take it over. I think we have to maintain some minimal national standards without a maximal national bureaucracy.

And the final point that I want to make, Mr. Chairman, does go back to the heart of our mission in this Committee, which is governmental organization.

One of the parts of my bill encourages experiments at the State level in the delivery of welfare services. I mean, one of the problems here is that the State welfare bureaucracies have inevitably, like an institution that goes on for decades, become crusty, and too much time is spent in State welfare offices basically writing checks or providing for the writing of checks instead of focusing on how to get people off of welfare and back to work, how to reconstitute families.

And I think one of the best things that we can do is to stimulate true reinvention and fixing of the State welfare offices which deliver this program that we need to change.

Mr. Chairman, I think you have brought together a very impressive and obviously diverse group of witnesses, and I look forward to their testimony, and I thank you again.

Chairman ROTH. Thank you, Senator Lieberman.
Senator Dorgan.

OPENING STATEMENT OF SENATOR DORGAN

Senator DORGAN. Mr. Chairman, thank you very much. I would like to include my statement in the record as well.

Chairman ROTH. Without objection.

Senator DORGAN. And I would like to make just a couple comments. I know you have a great panel. I listened intently to my colleagues. I agree with most everything Senator Cohen said, who was speaking when I came in.

This can be a thoughtful, enormously productive discussion about a real problem in this country, or it can be a political tap dance around a caricature of an issue, and it depends a lot on us in Congress.

And I worry about it, because the fact is, poverty in this country is a substantial human problem. In this country, the wealthy are getting wealthier, and the poor are getting poorer. There is a greater maldistribution of income than almost ever before in this country, and a lot of people are at the bottom of the ladder.

I want to just mention two little anecdotes for you. I toured a hospital 1 day. They showed me with great pride where they were going to put their new MRI machine. They had carpenters in there working, breathtaking technology. One hundred feet down the wing, I held in my hand a preemie baby who was born, the third child born to an unwed mother who did not want the third child, who some days before that had presented herself at the hospital with a .25 blood alcohol content and delivered a baby that had a blood alcohol content of .21 upon birth.

Here is this breathtaking technology and this tragic human failure 100 feet away. And the fact is, you see it all around this country.

I agree with someone as conservative as Pat Buchanan on this fundamental premise, that we have, in some cases, institutionalized welfare with the wrong incentives in the system.

On the other hand, I got up at 6 o'clock in the morning and went down to a homeless shelter in this town, and I will bet there is no person serving on this Committee who could help the young woman out that I sat across the table from with the two kids having breakfast.

She is young, in her early 20s, has two kids. Her husband left her; she has no job, no skills, and no opportunity. She can occasionally find a job, and when she does, it is frying hamburgers someplace, and if she gets any money from it, she loses AFDC, and she cannot find a place to live, because if she saved any money, she has a cut in her AFDC, and you cannot get a place to live unless you have a deposit to put down. She cannot accumulate money for a deposit.

As I drove back here to the Capitol, I thought to myself: I do not know what I would do if I were her; there is no way to climb out of that problem.

Most people I meet on welfare do not want to be there. They want an opportunity and a job. We need to fix the system that provides the wrong incentives that in some cases has institutionalized welfare.

On the other hand, let us not let there be a poverty of values in this debate and in this Congress about the human need. More people need help more than ever before in this country. Our help ought to be a handout and a hand-up to say: We are going to help

you while you are down, but you have a responsibility to help yourself. Step up.

Let me make one other point, Mr. Chairman, because it relates to, I think, something Senator Cohen said.

I was at a college some years ago doing a forum on student aid, and a young Indian boy stood up in the middle of the crowd, and he said: My name is Les. And he said: I am the first person in my family on an Indian reservation ever to go to college. He said: I am a junior, and I am going to graduate and get a college degree, and I will be the first in my family. And it is a family that does not have any resources, and I am here because of the Pell Grant program and because of the opportunity the Federal Government has given me.

That young boy, I am pleased to say, became an intern in my office, became a school teacher back on his Indian reservation, and as of last fall was elected State Senator in my home State.

Investment in that young boy who grew up in a home of poverty is the best investment this country can ever make.

Let us fix all these programs, and let us provide the right incentives, as Senator Cohen and others have said, but let us not create, as we discuss this, a political caricature about welfare.

This is 1 percent of the Federal budget. This country has a responsibility to help those who are in need, to help them step up and out of their circumstances to become a productive citizen in this country.

I want to submit a longer statement for the record, Mr. Chairman. But thank you for holding these hearings.

Chairman ROTH. Thank you, Senator Dorgan.

[The prepared statement of Senator Dorgan follows:]

PREPARED STATEMENT OF SENATOR DORGAN

The current welfare system serves no one well—not recipients, not taxpayers, and especially not the children who depend on public assistance for a fighting chance to live in a home without poverty.

Nearly one in seven children in our country receives Aid to Families with Dependent Children. One child in ten receives food stamp assistance. If our welfare system were working properly—and by that I mean breaking the cycle of dependency and moving families from welfare to work—these numbers would have declined over time. Instead, they have risen. In fact, the number of children receiving AFDC has increased every year for the last 10 years.

Often, we look at poverty and welfare dependency as a uniquely urban problem. This is a myopic view, and one that will serve us poorly during the welfare reform debate. A 1992 Children's Defense Fund study indicated that rural children not only are more likely than rural children to be living in poverty—they are also more likely to remain there. These are the people we must not forget—the families that simply cannot pull themselves up from poverty.

To truly reinvent our welfare system, we must take a proactive approach. A few preventive dollars—to provide education and training, to end the teen pregnancy crisis—can produce huge long-term savings for American taxpayers.

We must put the needs of our children front and center when it comes to welfare reform. A child develops critical survival skills during the first 3 years of life, and we must do all we can to provide kids with a healthy environment from the moment they are born. This means getting tough on deadbeat parents. This means providing preventative health care and nutrition services for children whose families can't afford them. This means giving every community the resources to offer group homes where teen mothers and their children can live in a safe and supportive environment that provides the structure needed for them to finish high school and begin to support their children.

What doesn't this mean? This doesn't mean punishing poverty with orphanages, as some have proposed. This doesn't mean cutting spending and turning over critical

services like WIC and food stamps and school lunches to the States without any guarantees that the needs of our kids will be met by doing so.

Perhaps the most important component of the welfare reform equation is work. I support requirements that tell welfare recipients who are not caring for infant children that, after 2 years on public assistance, they must take jobs in either the private or public sector. Our public assistance programs should be designed to encourage independence, not dependence. However, limiting the amount of time a person is eligible for benefits without providing a strong transitional program will amount to nothing more than the wholesale dumping of poor families into the street. To make reform work, we must support people with the tools and resources they need to support themselves. Above all, we must ensure that there are jobs to move into once they have completed training.

We cannot continue to provide disincentives to leaving welfare. The current system rewards unemployment and broken families. We must work with the States to find creative and effective ways to gradually reduce benefits and encourage personal responsibility while recipients gain both income and work experience.

One thing is certain—a welfare system that blindly throws dollars at a crisis can only make the long-term problem worse. That's why it is so very important to focus our debate on outcomes—which is the purpose of today's hearing—and to evaluate each program's successes and failures in an objective manner. If a program works, keep it, improve it, and use it. If it doesn't, fix it or discard it.

I am particularly pleased that Michael Stegman, the Assistant Secretary for Policy Development and Research at HUD, is participating in this hearing today. Housing assistance reform, in my opinion, is a critical component of comprehensive welfare reform. My colleagues on this Committee know that, during my tenure in Congress, I have vigorously sought to expose areas of government waste, fraud and abuse and to enact initiatives to eliminate flagrant abuses of taxpayers' dollars. One of the most egregious areas of wasteful spending, as documented by the CBO, the GAO, the IG, the National Academy of Public Administration and HUD itself, is the HUD housing assistance program, which spent over \$22 billion last year or approximately 10 percent of our entire discretionary budget.

In hearing after hearing before the relevant committees of jurisdiction in the House and Senate, HUD has been forced to admit that it doesn't know where all its housing inventory is, that it doesn't know what state of repair or disrepair its housing stock is in, that it doesn't have management systems in place to monitor its programs, and that it doesn't have the resources to perform effective oversight. The bottom line is that our current housing programs are in such a state of disarray that minor surgery will not cure the problems. Only major surgery will. I have long thought that all project-based assistance should be replaced with vouchers or certificates and was pleased to see that Secretary Cisneros included that proposal in his December document, "Reinventing HUD."

However, in testimony before the HUD Independent Appropriations Committee last week, many cautionary notes were sounded by a variety of witnesses about the short-term costs of this proposal. In order to get a better handle on both the scope of the problem, as well as the costs associated with this initiative, I am submitting a series of questions for the record and request that HUD respond to them in a timely manner. I expect that this data is readily available and that you can get back to me with your responses in no later than two weeks.

One final comment: In the weeks and months ahead, we must strive collectively to develop a welfare system that puts people to work and that protects and promotes the physical and emotional well-being of our children. I look forward to a constructive dialogue with my colleagues from both sides of the aisle and hope that collectively we can change the current system for the better.

Chairman ROTH. We will now call our first witness, Jane Ross, who is Director of Income Security Issues; Health Education, and Human Services Division; U.S. General Accounting Office.

Ms. Ross, it is a pleasure to welcome you this morning. Your full statement, as all statements of witnesses this morning, will be included as if read.

We would appreciate, to the extent you can, summarizing that statement. Would you please introduce who is with you as well?

TESTIMONY OF JANE L. ROSS,¹ DIRECTOR, INCOME SECURITY ISSUES; HEALTH, EDUCATION, AND HUMAN SERVICES DIVISION; U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY CYNTHIA FAGNONI

Ms. ROSS. I would like to introduce Cynthia Fagnoni, who worked with us on this testimony.

Chairman ROTH. Good morning.

Ms. ROSS. Mr. Chairman and Members of the Committee, I am pleased to be here today to talk about our comparison of the incomes and poverty status of two types of families, families that receive Aid to Families with Dependent Children or AFDC and working poor families.

We did this work at your request, following up on similar work we did for Senator Roth several years ago.

In recent years, the rapid growth in welfare caseloads, concerns about program costs and about beneficiaries' long-term welfare dependence have again focused attention on the Nation's welfare system. The major focus of this debate centers on AFDC, which provides cash benefits to economically needy families with children. In 1993, nearly 5 million families were receiving almost \$25 billion worth of AFDC benefits.

But AFDC families also may receive other types of Government assistance including Medicaid and food stamps. AFDC received an estimated \$49.6 or \$50 billion, if you will, worth of benefits from these three programs in 1993.

Our testimony today will focus on four major points: The range of benefits that AFDC and working poor families receive; AFDC families' income and poverty status; how AFDC families' incomes compare with those of working poor families, families that are not on AFDC; and how work-related supports may help AFDC families transition from welfare to work.

Let me give you the bottom line first. We found that the incomes of AFDC families who also receive benefits such as food stamps and Medicaid were actually quite similar to the incomes of families with earnings close to the minimum wage. In addition, we found that the incomes of most families in both groups fell below the poverty line.

Let me back up now and tell you a little something about the range of benefits that AFDC and working poor families receive.

AFDC cash benefits are jointly funded, as you know, by the Federal Government and the States. The States set their own benefit levels, and as a consequence AFDC monthly benefits vary widely among the States from Mississippi, where a family of three received \$120 a month in January of 1994 to Alaska where the monthly benefit in the same month totaled \$923.

Most AFDC families also received non-cash or in-kind assistance. For example, AFDC families are automatically eligible for Medicaid. Most AFDC families also receive food stamps. Only about 37 percent of AFDC families reported receiving housing assistance in 1993. And as a matter of fact, AFDC families can qualify for other benefits such as Head Start, WIC, and others.

¹ The prepared statement of Ms. Ross appears on page 133.

Very few AFDC families report earnings, about 6 percent, according to the information gathered in the management system of the AFDC program.

Working poor families in our analysis had earnings close to the minimum wage and were not on AFDC; however these families could be eligible for other types of assistance; for example, food stamps and housing assistance. And as a matter of fact, of the working poor families we studied, about 22 percent received food stamps, and about 12 percent received housing assistance.

Low-income families with earnings—and this would include an AFDC family, if it had earnings—are also eligible for the earned income tax credit. A parent with two children, who earns about \$8,900 annually, which is slightly above the minimum wage would receive a maximum credit during the year of about \$3,500 on the earned income tax credit.

Up to this point, I have described the types of income sources those AFDC and working poor families have. Now we want to describe our dollar-value estimate of the incomes of these two types of families. These are the incomes of the families who were surveyed by the Census Bureau on their actual income in 1993. These are not hypothetical examples; these are survey results. People reported their own incomes. And I would refer you to the chart that is on page 6 of the testimony that you have.

If you look at AFDC families, just looking at their cash assistance and earnings, AFDC families had a median monthly income in 1993 of \$401. That is well below the poverty line of \$1,027 a month for a family of three.

Now if you include food stamps, housing, school lunch benefits, but do not include Medicaid yet, that would raise their median monthly income to \$605.

Now determining how you are going to add in the value of Medicaid is a very difficult problem. Many experts argue that counting the value of medical care as if it were income is misleading, but we added this just for illustrative purposes, so you could see the difference that Medicaid could make. If you added Medicaid benefits, using one of the valuation schemes that the Census Bureau has, you would actually have a median monthly income of \$633, or with another valuation method \$767.

So that says something about the range of incomes we are talking about, from about \$401, if you are looking just at cash, to as high as \$767, depending on how you value Medicaid in particular.

To determine whether working poor families not receiving AFDC had higher incomes than AFDC families, we analyzed the income and the non-cash benefits that a working family receives. And we looked at working poor families that were up to 1.25 times the minimum wage in 1993. And some of these working poor families received food stamps. And so we estimated their median incomes both excluding and including these benefits as we did for AFDC families.

If you use earned income only, then working poor families' median monthly income was \$819, which is about \$50 higher than the highest estimates for AFDC benefits. If you add non-cash benefits, it is even higher than that.

As the Figure 4 on page 9 of your copy of the testimony shows, working poor families' median monthly income was about \$160 higher than that of AFDC families when you factored in non-cash assistance.

So just looking at that table on page 9, we are comparing the maximum median income of \$767 with the median income of \$926 for the working poor families.

But there are some other points that need to be added. While working poor families had a median monthly income that was higher than AFDC families, working poor families may incur significant work-related expenses. These expenses may adversely affect their impact on their ability to stay employed.

For example, child care costs can be a significant portion of a working family's budget. And the Census Bureau reports that child care costs for a low-income family that has to pay for child care can average \$260 a month.

If you compare \$260 with the numbers I just showed you on page 9, you can see that that \$926 drops pretty dramatically and certainly for the median there would take you below what AFDC families have.

So work expenses are a significant issue for the working poor.

The two types of families that we examined, these AFDC families and working poor non-AFDC families, are frequently the same families observed at different points in time.

Many low-income families go on and off the welfare rolls because of events that affect their ability to work at a particular time; for example, they lose a job; the child care arrangement breaks down; a child becomes sick; or they lose access to affordable transportation.

Nearly 64 percent of welfare recipients leave AFDC within 2 years. However, between two-thirds and three-quarters of those who leave AFDC return within a 5-year period. So we have some cycling going on. These families are not necessarily distinctly different groups.

When AFDC recipients move into the workforce, they generally work at low-paying jobs and incur work-related expenses, as I said before.

Some discussions of changes in the welfare system have incorporated ideas about how to reduce the number of working poor who return to welfare in addition to concentrating on ways to get jobs and get welfare recipients back to work.

Our recent child care study found that, one work-related support—child care subsidies—can help women on welfare to move into the workforce and stay there; for example, providing a full subsidy to mothers who pay for child care could increase the proportion for poor mothers who work from 29 to 44 percent, quite a dramatic change for one particular subsidy.

A second work-related support, the EITC, may also help women stay in the work force, and I explained the benefit levels of that earlier.

Just to conclude, the median monthly income of AFDC three-person families, a mother with two children, was below the poverty line even when all of the major non-cash benefits were added in.

Working poor non-AFDC families' median income was higher than AFDC families—\$926 as compared with \$767—but it still was below the poverty line. Moreover, low-wage workers may incur significant job-related costs such as child care which could increase the number of them who are financially worse off than AFDC families.

Two public supports, child care subsidies and EITC, can be important factors in helping these women join and stay in the workforce. These supports may become more important under welfare reform as policymakers seek changes to move more welfare recipients from welfare to work.

Mr. Chairman, that concludes my statement. I would be happy to answer any questions you or other Members of the Committee may have.

Chairman ROTH. Well, thank you, Ms. Ross. I do want to point out that in your testimony, you frequently draw comparisons to the poverty line, and I notice that you have a footnote explaining that the Census calculation of poverty does not include non-cash assistance.

That, of course, means that Census does calculate cash equivalents for such programs as housing assistance, food stamps, and Medicaid. Such calculations of amounts do not count towards determining poverty status.

Further, I think it is worthwhile to point out that the desirability of using the poverty line as a determining factor in policymaking has been widely debated on the basis of regional variations of cost-of-living and so forth.

I make the point to make it clear that it is not my intent in holding this hearing to engage in a debate about the accuracy or use of the poverty line, but rather to take a broad look at the current welfare system and how the benefits provided in the system compare to incomes of working families, as well as to address the structural issues we should consider to move towards welfare reform.

We will limit our questions to 10 minutes.

Ms. Ross, as I understand it, your work and computations include only the four major public assistance programs: AFDC, food stamps, Medicaid, and housing assistance.

Conceivably a family receiving these benefits could be eligible for other programs such as the low-cost home energy assistance program.

Is it accurate and fair to say that the figures you have presented this morning are really minimums, that, in fact, what you term "the monthly median income" could actually be higher in some cases?

Ms. ROSS. We used as our data source the Census Bureau survey, and this is the data that people reported in terms of the benefits they received. But I think the Census Bureau restricted its questions to those major categories.

So it is possible that people received additional benefits; as I said, things like Head Start or, as you said, the low-income energy program.

How much an actual family receives would depend on a great many things. One of the big things would be the State where they

live and the level of the AFDC benefit, because as I suggested, it has tremendous variation.

Whether they received housing assistance would be another important factor, because housing assistance is not uniformly available across the country, and it is not an entitlement program, so some people receive it, and others do not.

So the specifics of individual cases could be very different from this median.

Chairman ROTH. And that is because there are a number of other programs for which they may or may not be eligible?

Ms. ROSS. That is true.

Chairman ROTH. But can you tell me how many other Federal or State programs do exist? Is there any listing of those, for which they might be eligible?

Ms. ROSS. I am not aware of a list that is exhaustive. What we tried to do is take the programs that are the major components. These are all of the big-dollar items that an AFDC family would receive.

But there are many separate programs that I have not counted—we have not counted.

For an overview of means-tested programs, and the programs to which AFDC families may be entitled, see attached letter.¹

Chairman ROTH. I think it might be interesting to try to determine what those programs actually are and to what extent they influence the so-called median. I recognize that is extraordinarily difficult.

In obtaining the monthly median income, can you tell me how you valued housing assistance and how much it accounts for the \$767?

Am I correct in saying that the value of housing assistance is included in this figure?

Ms. FAGNONI. Yes, it is. One of the reasons—well, two reasons why we picked the set of programs that we did—and by the way, it did include school lunches—was both because they were significant dollar programs, but also because the Census Bureau has included cash equivalent evaluations in the database that we used, and in all cases we used the Census Bureau's non-cash equivalent calculations.

In the case of housing assistance, they have a methodology for developing market equivalent price for the assistance. It is based on the location and variations in the housing markets of the particular places where people are receiving assistance.

Based on the way we did our work, we can tell you, as we mentioned, that about 37 percent of the households we looked at received housing assistance, but we did not do, at this point, the analysis to be able to show some specific examples of how much housing assistance particular families might be receiving and how much of a difference that might make in their benefit amount.

For this particular analysis, we provided information more on participation and showing median income, which would take into account the variations of benefit packages people received.

¹The letter appears in the Appendix on page 245.

Chairman ROTH. Well, again, can you tell me how much the housing assistance accounts for the figure of \$767?

Ms. ROSS. Not specifically—to the extent that those 37 percent of the households received some type of housing assistance, that is built into our median number, but we do not have a breakdown of the total households that receive housing and how many total dollars they receive from housing. We would have to do some further analysis to provide that to you.

For a breakdown of the median dollar value of individual benefits, including housing, see letter mentioned above.

Chairman ROTH. Well, I wonder if you could supplement your testimony, because we would like to have more precise figures on this matter. Do you have any estimate of what it costs the Federal Government to administer the many programs at the Federal and State level?

Ms. ROSS. I do not have such a figure.

INSERT FOR THE RECORD

No comprehensive data are available on the administrative costs for the nearly 80 means-tested programs that comprise the Nation's welfare system. We were able to obtain administrative costs for 18 of these programs, as shown below.

ESTIMATED FEDERAL ADMINISTRATIVE COSTS FOR MEANS-TESTED ASSISTANCE PROGRAMS

(Fiscal year 1993)

Benefit category/program	Estimated Federal Expenditures (In millions)			Percentage Admin. Costs of Total
	Benefit	Admin.	Total	
Aid to Families with Dependent Children	\$12,270	\$1,487	\$13,757	10.8
Supplemental Security Income	20,312	1,489	21,801	6.8
Foster Care	1,307	1,217	2,524	48.2
Adoption assistance	198	74	272	27.2
Assistance to refugees and Cuban/Haitian entrants (cash components)	62.7	10.8	73.5	14.7
Medicaid	72,569	2,384	74,953	3.2
Medical care for veterans without service-connected disability	8,307.4	41.5	8,348.9	0.5
Indian Health Services	1,476	49	1,525	3.2
Title X Family Planning Services	169.3	4.1	173.4	2.4
Medical assistance to refugees and Cuban/Haitian entrants	101.3	17.4	118.7	14.7
Food Stamps	22,031.1	1,684.9	23,698	7.1
Special Supplemental Food Program for Women, Infants, and Children	2,196	732	2,928	25
Child and Adult Care Food Program	681.7	15.3	697	2.2
The Emergency Food Assistance Program	161.5	45.5	207	22
Summer Food Service Program for Children	205.2	22.8	228	10
Commodity Supplemental Food Program	62.3	19.7	82	24
Food Distribution Program on Indian Reservations	49	19	68	27.9
Home Investment Partnerships	189.1	17.3	206.4	8.4

Chairman ROTH. Is that obtainable? One of the things in re-inventing Government that we do want to look at is how expensive the administration of these programs is. The fact that we, at the Federal level, have several different agencies administering these programs with different requirements, obviously it adds up the cost of these programs.

At the State level, it is my understanding that many States have consolidated the administration in a single unit, so that they are so-called "one-stop". So I would be interested in arriving at what extent these programs are—or the administration of these programs are, eating up the funds made available.

Ms. ROSS. We will be glad to get that for you.

INSERT FOR THE RECORD

In published GAO reports and testimonies, we have identified several examples of program overlap which contribute to higher administrative costs. These include employment training, food assistance, and early childhood programs. However, the administrative costs associated with overlapping means-tested programs cannot be readily quantified. In our review of employment training programs, for example, we found that the estimates of administrative costs ranged from as low as 7 percent for some programs to as high as 15 or 20 percent for others. At the Federal level, most agencies cannot adequately track their administrative costs by program. However, given the many Federal, State, and local agencies involved in administering these programs, we believe the administrative costs are substantial.

Chairman ROTH. The example you used for working households not receiving public assistance was based on 1.25 times the minimum wage and below. And I understand it was necessary in order to use actual rather than hypothetical numbers.

But my question is this, Ms. Ross: Given the facts, is it fair to say that there are, in fact, working households who do not receive public assistance at lower incomes than you presented? For example, are there families with minimum wage incomes not receiving public assistance from the four programs on which you based your calculations?

Ms. ROSS. That is what our data showed, that there were such families, not receiving AFDC and some of them not receiving food stamps or housing assistance either.

Chairman ROTH. So, in fact, what we have created through the array of programs is a welfare system where people on welfare, who do not work, can actually be as well off—and factoring in work-related expenses—better off financially than people who are working and receiving no public assistance; is that correct?

Ms. ROSS. Yes, that is correct.

Chairman ROTH. And would you say that gives credence to the view that for at least some portion of families receiving public assistance from all of the major programs, as well as benefits from some of the others like energy assistance, that the potential benefit, in and of itself, is a disincentive to work?

Ms. ROSS. I would say it is. And there are studies that suggest that benefit levels have an effect on work, that the higher a benefit level is, the greater the work disincentive. So I think there is evidence that that can be the case.

Chairman ROTH. I know that the whole question of work incentives versus disincentives has historically been and continues to be a matter of great debate. Yet as I understand it, AFDC families with earnings, even given program offsets to earn income, are still better off than those who do not have earnings; is that correct?

Ms. ROSS. That can be the case; yes, sir.

Chairman ROTH. Even so, a very small percentage of AFDC recipients work. I think the number you cited was 6 percent?

Ms. ROSS. Yes, sir.

Chairman ROTH. In your opinion, is that attributable to the fact that marginal income gains alone are not a sufficient inducement to work? Do you know what the marginal gains are on average?

Ms. ROSS. Well, I think I can tell you a little bit about what happens if you are on AFDC and you begin to work.

First of all, after very few months, your AFDC benefits are offset against your earnings dollar for dollar.

Second, after a year of working, you will lose your Medicaid as you work your way off AFDC.

So there are some very significant issues about benefits you lose and about the rate at which you lose your AFDC income. And as we said before, you may, as you work, then also gather these other expenses like child care, which might or might not be reimbursed.

So there are terrific costs to some of these people of moving into the workforce.

The earned income tax credit, on the other hand, can make a significant difference for low-income workers because it can add as much as about \$1.75 to the minimum wage per hour. So that is working in the other direction.

Chairman ROTH. My time is up. Senator Cohen.

Senator COHEN. Mr. Chairman, Senator Cochran has joined us, and perhaps he has a statement that he would like to make.

OPENING STATEMENT OF SENATOR COCHRAN

Senator COCHRAN. Oh, you are kind. I have a statement, Mr. Chairman. I will just ask unanimous consent to put that in record, so as not to delay the questions of the panel. Thank you.

Chairman ROTH. Without objection.

[The prepared statement of Senator Cochran follows:]

PREPARED STATEMENT BY SENATOR COCHRAN

Mr. Chairman, I want to thank you for holding this important hearing on the restructuring and downsizing government. If any area of our government can benefit from restructuring it is our welfare programs. True welfare reform must be one of the many successful legacies of the 104th Congress.

Mississippi is one of the few States that has had an actual decrease in welfare caseload. But, as in many other States, we have far too large a percentage of our total State population who are potentially productive citizens, but who are living and raising their children in poverty. Many welfare recipients are trapped in an environment where it is unlikely that they will gain an appreciation of the value of a job or enjoy the personal satisfaction and confidence gained from being self-sufficient.

Most who are living under these conditions want a much different life for themselves and their children. But there has been little encouragement, and, too many have no hope at all. It is that human condition of despair and hopelessness that we must change.

Virtually everyone agrees that there are many deficiencies in our welfare system that need to be corrected. Meaningful reform must emphasize the importance of parental support for children, the value of work, and individual responsibility. There is also broad agreement on the responsibility of the State to provide adequate and sensitive help to those who are unable to provide for their own needs.

It is important to provide encouragement and incentives for those who want to be more self-sufficient and provide a good life for their children. But, for those capable, yet unwilling to help themselves, benefits and assistance simply should not be available in perpetuity.

In some cases, welfare recipients have a greater economic incentive to remain on welfare than to work. In order to break out of this situation, we must either find ways to increase the ability of those on welfare to earn, or cut welfare benefits. The key is to make working a more economically rewarding choice. And, we must find

a way to aid needy children without diminishing parental responsibility, and provide needed benefits to those who are unable, through no fault of their own, to take care of themselves.

I believe our efforts to reform welfare should be centered on giving more flexibility for State governments to experiment and implement their own ideas for reform. Many good ideas are being developed and adopted by State legislatures. There is not one program that fits all situations. States should not have to come to Washington to ask for permission to try and solve the problems in our welfare system. We must give States and local governments additional flexibility to move welfare recipients into the mainstream of America.

Some argue the Federal Government should "fix" welfare before turning it back over to the States. An effort was made in 1988 with the passage of the Family Support Act. However, since 1988, the number of welfare recipients has increased rapidly. Last month, the General Accounting Office (GAO) reported that only 11 percent of the 4.6 million parents who receive Aid for Families with Dependent Children (AFDC) participate monthly in any of the education, training or job search programs set up by the Family Support Act.

Other earlier efforts at the Federal level to reform welfare have failed to achieve the results which were anticipated. It is now time to try a fundamentally different approach by allowing States maximum flexibility to develop better programs. In exchange for flexibility, the Federal Government should demand only results, that the States succeed in reducing welfare rolls, moving recipients into the job market, and at the same time making sure that those who are unable to care for themselves are given the support they need.

After a substantial delay, Mississippi received waivers from the Departments of Agriculture and Health and Human Services to implement a number of innovative welfare reforms. These reforms concentrate on moving people from welfare to work. For example, in six pilot counties, participating businesses will be given \$3.25 an hour in AFDC and food stamp payments as an incentive to hire welfare recipients. The companies will be required to pay the additional amount needed to bring the recipient's salary up to the Federal minimum wage. Welfare recipients receive Earned Income Tax Credit (EITC), which could total up to 40 percent to their yearly wages, and free child care while they participate in the program. Able-bodied recipients who fail to show up for work in the program will not be paid any welfare benefits.

This is just one example of the kind of State-initiated, creative approach that we need to try.

Americans are a compassionate people. We want to see those in need helped. But our current system is failing the taxpayers, the recipients and our society as a whole. Fundamental change is needed and needed soon. I look forward to hearing from our witnesses today on these important issues.

Senator COHEN. Mr. Chairman, I just have a couple of quick questions.

Ms. Ross, in your testimony, you indicated that AFDC benefits, obviously, vary from State to State.

Ms. ROSS. Yes, sir.

Senator COHEN. And, in fact, they generally tend to increase with the increase in the size of the family. And some recommendations would, in fact, prohibit an increase in the benefits that would correspond in the family membership as such, in order to discourage more children born out of wedlock.

Do you have any information in terms of whether there is an AFDC family cap, or a maximum that has been imposed by the States? Do you have any information in terms of whether States do, in fact, have a maximum cap?

Ms. ROSS. Senator Cohen, I do not know the answer to that question. I know that as additional children are added to the benefit, the family's benefit, the dollars are reduced. But I think Mary Jo Bane is probably a better person to ask, or I will be glad to get back to you with the information.

Senator COHEN. All right, thank you, fair enough.

Many times—or most times, I should say—that we do not include the disability programs within the discussion of welfare reform—the means-tested SSI program, for example, and the other disability programs—but, in fact, the disability payments currently are higher than AFDC, food stamps, and the earned income tax credit combined, are they not?

Ms. ROSS. Yes, sir.

Senator COHEN. In fact, between the years of 1988 and 1993, the disability insurance and SSI payments went from \$31.1 billion to \$52.3 billion, about a 68 percent increase.

I was wondering if you could talk a bit about what sort of rehabilitation programs are underway within the disability programs?

I mentioned before—and you were very helpful in working the issue with drug addiction and alcoholism—I am not talking about that now; I am talking about the disability programs for people who have either a physical or mental impairment—what has been the record to date of success of moving those individuals off of disability back into the workforce?

My understanding is that many of those beneficiaries actually complain about being trapped in the disability programs and not being able to get back into the workforce.

Do you have any information you could share with us about the success or viability of rehabilitation programs within the SSI and disability insurance programs?

Ms. ROSS. Yes, I do. The rate of return to work in the disability insurance program is about 6 percent. It would seem to be very low.

We are doing a body of work now trying to look at this issue about whether rehabilitation comes so far at the end of the disability determination process that it would be unthinkable for people to have spent a year or a year and a half getting onto the program and then turn around and say: I think I will start being rehabilitated; whether they have invested so much in believing themselves to be disabled that they cannot think yet about rehabilitation. So we are looking at other ways to put rehabilitation in a different place in the process.

But some of the same issues that I was just talking with Senator Roth apply here as well, about the marginal benefits of working. It is an important issue in the disability insurance and the SSI programs as well. There are significant benefit offsets. It very quickly gets to a dollar-for-dollar offset, and again you lose your medical insurance. So some of the same issues are raised there as here.

Senator COHEN. That is all I have now, Mr. Chairman.

Chairman ROTH. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman, and, Ms. Ross, thank you.

Your report confirms, I suppose, what would be popular suspicion and in that sense validates other studies that have been done that show that on a purely economic basis, for the average person on welfare, it does not make sense to go to work; that is to say, if you are just looking at the immediate income impact of that.

Obviously there are other factors in the economics. I mean, presumably one is pride; the other is that in the welfare system you are only going to go so far.

If you go into the work system, you have a chance of upward mobility, although I know, as you have said—and this is a sad fact—that the number of people who go from AFDC to work and then come back to AFDC is large, two-thirds to three-quarters, I think you said, and that confirms what we have heard.

My first question is—and I would add one other thing, I guess, which is that there are at least two obvious ways I can think of that one might alter this equation—that there is not much of an income incentive for people on welfare to go to work—and one is to make the wages of the working poor better. And at the risk of seeming to follow too closely on last night's Presidential address, one way to do that would be to increase the minimum wage.

The other would be, of course, to lower some of the benefits of people on welfare, and, in fact, that is, I presume, one of the reasons why some have called for the end of the AFDC program, as a side question as to what our responsibility is to the children who remain after we get rid of AFDC.

But one effect it clearly has is to—I mean, to say the obvious—is to broaden the income difference between those on AFDC, which at that point presumably would be zero, and those who work, and I think that all of that has to be explored because of the sad, dismal state of the current welfare system, and all of those should be tested, as I indicated earlier.

Are there any studies that you are aware of—and maybe this goes out of your specific focus—that give us an indication of how important the income differentials that you have described are—in other words, maybe how important is the income difference between being on welfare and going to work as opposed to pride of not being on welfare as opposed to the thought that if you get into the work system, you have to go not only to the minimum wage but higher?

Are you aware of studies of that kind?

Ms. ROSS. I am not aware of anything that addresses exactly what you are talking about. I can tell you two things, though, from our work in this area.

One of them is that over the past several years the welfare programs have moved from just examining these issues of incentives to trying to change the attitude both welfare workers and welfare recipients have toward welfare, which is that it is to be temporary, a transitional period, and that you will be required to move along, and that even if maybe your first job is not all that you want in terms of income, that subsequent jobs may be higher paying. That is certainly one of the reasons that the JOBS program has been emphasizing training during a period before moving you along.

I am not trying to debate at all whether incentives are important or unimportant, just trying to say that some of the philosophy, especially behind the 1988 Family Support Act, was to kind of give people some encouragement, a shove, if you will.

And then the other point was what you brought up earlier about this very fragile population of the working poor.

Senator LIEBERMAN. Right.

Ms. ROSS. The kinds of supports you can give those people in terms of child care subsidies or the earned income tax credit may be a way to help people who have moved off stay off.

Senator LIEBERMAN. Absolutely. So it is not just a question of the minimum wage, but the supplementary benefits such as the earned income tax credit program for the working poor can be very important.

And as you have pointed out, the thing that brings the median income of the working poor below the median income of welfare recipients is the median cost of child care for working families, so that the working poor virtually end up under. Therefore a child care subsidy of some kind for—or at least a transitional subsidy for child care, as you have found, is one of the things that works to encourage welfare recipients off of welfare into work.

How significant is the availability of Medicaid to people on welfare as they make a decision as to whether to go to work and lose the Medicaid?

Ms. ROSS. We did not do any particular work on that topic.

Senator LIEBERMAN. OK. Let me ask a more general question, since my approach to this problem has been to try to figure out what works here, and then when we find something that works, use it nationally.

In your studies, what successes—what successful programs do you see—have you seen that will get people from welfare to work?

Ms. ROSS. Well, we have just finished work—or are almost finished, I should say, with some work that was looking particularly at the JOBS program, which is the training component for AFDC.

Senator LIEBERMAN. Right.

Ms. ROSS. And one of the things that was a little discouraging to us was first of all the fact that the AFDC was not collecting data on how many people were actually leaving the program and going to work.

And the second is that the States were not being held accountable at all in terms of their payments for those kinds of outcomes.

So I am not exactly yet answering the question of what works, but what is of concern to us, and that is that this program that is supposed to help put people into the workforce has not told the States in a way that is meaningful to them that they are going to hold the States accountable.

While we were doing the work for this particular study, I had the opportunity to visit the welfare and JOBS program in Riverside, California, which has gained great notoriety.

Senator LIEBERMAN. Yes. What did you think?

Ms. ROSS. What we observed and what the data show is that when you change the atmosphere in a welfare office, when people have laid on them from the very beginning this expectation that they are to go to work—some of them need help, some sort of education and training first—but that the idea is to get off welfare as soon as you can, it makes a difference. That particular area has a higher rate of return to work than other places that were studied.

Senator LIEBERMAN. And let me understand. That is because there is pressure from the beginning to go back to work, that they know they are going to be on there? Do they have a time limit?

Ms. ROSS. No, but there is an expectation both among the workers and among the recipients that work is the outcome.

Senator LIEBERMAN. So they have changed the focus there.

Ms. ROSS. Yes, sir.

Senator LIEBERMAN. And that does work. And the other, just to restate, the one point that you make in your printed testimony is the study that found that one work-related support, namely child care subsidies, can help women on welfare move into the workplace and stay there. For example, providing a full subsidy to mothers who pay for child care could increase the number of poor mothers who work from 29 to 44 percent.

Now in this field, that is a pretty significant success rate. Would you say that provision of child care subsidies is the most effective program that you have looked at in terms of inducing the move from welfare to work?

Ms. ROSS. We did not do this in a way that could tell us which was relatively the most important. You probably expected me to say that.

But that is a very substantial increase, and it certainly seems as if it gets close to the top of the list.

Senator LIEBERMAN. OK. A final question: You mentioned—and we are all familiar with this from our various States—that there are wide variations in AFDC benefits given by various States.

Are there studies or has GAO been involved in studies or do you know from your experience about the state of wisdom on the question of whether welfare recipients or potential welfare recipients shop from jurisdiction to jurisdiction, State to State, to go to States that offer more or have less onerous requirements?

Ms. ROSS. We have not done any work on that topic.

Senator LIEBERMAN. I have not heard that discussed, although it is certainly common wisdom. Maybe some of the other witnesses can testify to that point.

There was a time when I was in the State legislature in the 1970s when Connecticut and a lot of other States were passing residency requirements which were based on the presumption that because we had a higher AFDC benefit level that, in fact, we were becoming a magnet for welfare recipients.

I thank you for your report.

Thank you, Mr. Chairman.

Chairman ROTH. Senator Cochran.

Senator COCHRAN. Mr. Chairman, thank you very much.

One question I have is whether or not you agree with the general approach that some are suggesting, and that is that we give, as a centerpiece of any Federal welfare reform effort, more flexibility to State Governments to have pilot programs where they experiment, and try to implement some of the ideas that are now being discussed among the National Governors Association, and some States have even tried already.

What is your reaction to that as a point of emphasis for any Federal welfare reform initiatives?

Ms. ROSS. I think that encouraging flexibility in various proposals in order to experiment probably will help us to discover what works, what problems crop up that nobody thought of.

I think it is important that when we do that, we do it in a way so that we really understand the results that we have, that we have some sort of study that goes along with the experiment, so that we really can be sure that the effect that we see was the result of the particular change.

I think in terms of flexibility there is another kind of flexibility that could be encouraged, and that is, there are so many narrow programs that make service delivery very difficult, and some way of consolidating groups of programs might be very helpful.

I have one particular example, and that again goes back to child care. There are four child care programs that basically are tapped into by low-income families. They all have different payment rates; they have different rules.

And you can get to the point where you have left welfare, and you are on one of these child care programs, and then you lose your job, through no fault of your own, and that particular child care program will not give you child care to look for another job. And so there you are; you worked yourself off welfare, but you need child care, so maybe you end up going back onto the welfare system so you can go look for work again.

That is not sensible. A flexibility that takes clusters of those kinds of programs and broadens them some would be another useful kind of flexibility, I think.

Senator LIEBERMAN. I noticed that when you talked about the disparity among the States in terms of dollar value of the benefit under AFDC from one State to another, it illustrated to me that the effort that some are suggesting that we have a new Federal welfare reform program, that we need to take into account the differences that exist throughout the States, and these are pretty dramatic, and you mentioned the \$120 per month AFDC benefit in Mississippi as compared with the, what, about \$900 a month in Alaska?

Ms. ROSS. In Alaska, yes, sir.

Senator COCHRAN. And I suppose the cost of living, cultural differences from one part of the country to another, help explain some of these things, and the financial abilities of some States to meet these needs.

I know in my State we would be hardpressed to assume all of the Federal responsibilities in Mississippi to pay for the dollar costs of all the Federal programs that some are suggesting should be turned over to the States. That would be fine in terms of the administration of the programs, but the financial support for all of them, just converting dollars from Federal dollars to State dollars would be an impossibility in some States that are just not as well off financially as other States.

What is your reaction to that suggestion? I know that it is gaining in popularity among some here in the Senate. For example, some suggest we simply shift the costs, the responsibility for paying benefits, from the Federal to the State Governments.

Ms. ROSS. Are you talking about something like a block grant?

Senator COCHRAN. Well, just what I said. I am not trying to use buzzwords.

Ms. ROSS. OK.

Senator COCHRAN. Just plain English.

Ms. ROSS. Well, I think you have put your finger on one of the concerns, and that is the financial capacity of various States, then perhaps the willingness as well, but certainly the financial capacity of States to be able to pick up these burdens.

And if you are talking about programs for low-income people where the numbers rise and fall, depending in part on the economic situation, you will have States in a very vulnerable position if their economies should turn bad. You have more people who are in need and less revenue.

So it puts the States in a very risky position.

Senator COCHRAN. Having asked you that, it seems to me that some recent experiences are also helpful for us to consider. I know there are about 22 States or thereabouts that have already enacted legislative reforms or changes in the welfare system, trying to move those who are able-bodied, or who ought to be in some kind of job training experience, off of the welfare rolls onto the tax rolls.

But what is being encountered in these efforts is the necessity to come to Washington and get permission to waive the requirements of certain Federal laws or regulations, so they can implement these newly enacted reforms.

In my State, it took months and months and months of very hard work to just get the permission of all the Federal agencies and departments to implement a small welfare reform pilot program.

It seems to me that is something that frustrates the efforts of the States to develop some new approaches. We finally did get permission. Secretary Shalala called me at home in Mississippi during the Christmas holidays to tell me that the final hurdle had been crossed and overcome and that Mississippi could implement its welfare reform program. And it was enacted last year, early last year.

The Department of Agriculture had to approve a cash-out of food stamps in certain circumstances. The Department of Labor had to approve and give waivers for things that were considered by some violations of wage and hour laws. And HHS had to give approval for some of these changes as well.

And some were suggesting that it was all politics, that the Democratic Administration did not want the Republican Governor to get any credit for a welfare reform program. I do not know whether that was true or not. But that was beginning to be the suspicion back in my State, that it was a situation where politics was getting involved, and never mind the merits of the program. You had the Democrats and the Republicans fighting over whose welfare reform approach is better.

I think a lot of people are getting sick and tired of all of that. And what they want us to do here in Washington is work together to try to come up with common-sense proposals to improve the system and forget who gets credit for it, whether it is the Republican Congress or the Democrat Administration.

And frankly I think that is something we ought to seriously consider and work very hard to overcome and meet the challenge of developing a program that works for the welfare recipients who need a better program, but is also sensitive to those who do not have the ability to care for themselves.

Now the debate seems to be centered around the able-bodied. There are a lot of people on welfare who are not able to provide for themselves, those who are blind, those who are disabled in some other way, and infants and children.

I know the President's program is supposed to move about 20 percent of the people off welfare into jobs. That is the goal, I am told, in the briefing papers that I have read. And it is going to cost an additional \$9 billion to implement the welfare reform program of the Administration.

Have you looked at these numbers, and are they correct? Do you have any basis on which to judge whether that is an accurate assessment of the President's proposal?

Ms. ROSS. We did not take their numbers and try and scrub them to see if we would come up with the same thing.

But we have done a lot of work in the area of welfare reform. And it is clear to us that if you are going to move significantly greater numbers of people through the welfare system, train them, give them the kind of child care or transportation help they need while they are being trained and then move them out, that it will cost more money, because you are trying to take larger sets of people, and you are probably dipping down into people who are more difficult to serve than the people you are now serving in the JOBS program.

So I cannot speak to the particular number, but it is clear that it would cost more money, if you are going to take larger groups of people and move them into work.

Senator COCHRAN. One final observation. I see the red light has come on.

I know that before we implement a new Federal welfare reform program, we ought to see what is working out in the States. I know that Wisconsin has a program and a lot of other States. Oregon has a program. Mississippi now has a pilot program in place. And it may be that the smartest thing to do would be to say to other States: You can adopt some pilot programs and demonstration programs, too; we encourage that. And then let us have a Federal study of what is going on out there before we jump out and get ahead of the program and do something that is going to cost \$9 billion, like the President's program, if that is true, without knowing what we are doing.

Well, thanks very much. You have been very helpful.

Chairman ROTH. Senator Levin.

OPENING STATEMENT OF SENATOR LEVIN

Senator LEVIN. Thank you, Mr. Chairman. I have a brief opening statement before I have questions of our witnesses.

I am hopeful that the 104th Congress will find a way to get people off welfare into jobs, in the private sector if possible, but in public service if necessary. I hope we find a way to make sure that deadbeat fathers are held responsible for the support of their children, and that we do these things without penalizing innocent children.

But we should all be aware that the welfare problem is difficult and complex, involves our most basic values, and has bedeviled us for a long time. Simple solutions and easy slogans will not do the job.

If we are going to find solutions, they will not be Democratic or Republican solutions; they will be found not exclusively in either

the Federal Government or the States, and they are going to require new and innovative ideas.

First, let me ask you, Ms. Ross, about the data. You have given on page 9 of your statement—a comparison of AFDC and working poor families' median monthly income.

Ms. ROSS. Yes, sir.

Senator LEVIN. The way I read it, it looks as though, on the average, if you are working you are better off financially than if you are on AFDC. That is on the average.

Ms. ROSS. That is right, on the average.

Senator LEVIN. So that on the average there is a financial incentive to get off welfare, although for many people, there is no financial incentive; is that true?

Ms. ROSS. I am sorry. Would you ask your question again?

Senator LEVIN. Yes. We are trying to figure out where the financial incentives lie. Is there a financial incentive to get off welfare, or do you do just as well on welfare?

Is it true that for most people—not all, but most people in most States—that there is currently a financial incentive to get off welfare, that most people would be better off working than on welfare?

Ms. ROSS. I think the answer depends a lot on what the benefit levels are that you are receiving on AFDC, what the wage is that you would expect to receive if you were working, whether the job to which you were going had health insurance, whether you had other expenses that might be covered or not.

So I think it is hard to make a generalization. We tried to, with these median numbers, to probably make more the point that these people are not that different in terms of their status. And that is about the best we could do.

I do not think that it is just the right data to answer the question that you have asked.

Senator LEVIN. All right. If you could look at your chart on page 9 of your testimony—

Ms. ROSS. Yes?

Senator LEVIN [continuing]. Could you just give us what that data is? The way I read it, AFDC families' median monthly income is less than \$800 with those non-cash benefits included. Is that correct?

Ms. ROSS. That is right. The number is \$767, assuming a particular way of valuing Medicaid.

Senator LEVIN. All right. But trying to include the value of Medicaid?

Ms. ROSS. Right.

Senator LEVIN. Now for the working poor families' median monthly income, it looks like it is over \$900.

Ms. ROSS. Right. It is \$926.

Senator LEVIN. So that chart tells us that there is, at least for the average person—not all, but for that average person on welfare—a \$100-plus incentive to get off welfare. Is that correct?

Ms. ROSS. That is right. These averages are about \$160 different.

Senator LEVIN. Have you been able to compare the percentage of people on welfare who go to work in States that have low AFDC compared to States that have higher AFDC?

In other words, we do have some States, you have testified, that have fairly low benefits relative to other States. Is there a difference in terms of the percentage of people going to work in States that have low benefits compared to States that have high benefits?

Ms. FAGNONI. We do not have that information. And just knowing the administrative data that is the best source of showing the percentage of people who are working at the same time they are on welfare indicate that only about 6 percent of welfare recipients work at the same time.

Since that is a fairly low percentage, it might—just from a statistical standpoint, it might be difficult—the numbers might be so small that you may not be able to do State-by-State comparisons. It is such a low percentage to start out with that it would probably be difficult to determine—

Senator LEVIN. I am talking about the percentage of people who leave welfare for work.

Ms. FAGNONI. Whether it varies by State. We did not do that in our analysis, and to my knowledge, I do not know of studies that have really tried to do State-by-State comparisons of percentages of—

Senator LEVIN. Well, since the gap between AFDC family median monthly income and what a working poor family's median monthly income would be, I presume, is quite a bit greater in States that have low welfare payments.

Would it not be useful for us to compare those States with other States in terms of the percentage of people who are leaving welfare for work? Would that not be a useful statistic to obtain?

Ms. ROSS. It might be a very interesting one.

Senator LEVIN. OK. And I am wondering whether you might see if that is available, and if so, if you would supply that to the Committee, if the Chairman would approve of that or agree to that?

Chairman ROTH. Yes.

INSERT FOR THE RECORD

According to the experts we consulted, there are no studies available that assess the impact of States' varying benefit levels on the percentage of people who leave welfare for work in different States. Moreover, national data are not available on the extent to which welfare recipients leave welfare and enter the workforce. We recently reported, for example, that the Department of Health and Human Services (HHS) does not know whether the employment training program aimed at helping welfare recipients obtain jobs is helping reduce welfare dependency. HHS does not gather enough information on critical program outcomes, such as the number of participants entering employment and leaving Aid to Families with Dependent Children (AFDC) annually. Many States gather some outcome data; however, without a standard Federal approach, few States could provide us with comparable data.

Senator LEVIN. Senator Cochran was getting to a point about looking at what is actually happening out there in the States, and I think it is a very important point.

We granted a whole bunch of waivers. Do we know the impact of those waivers?

Ms. ROSS. Most of those waivers have been in existence a relatively short period of time. The set that have—well, the set that began with the Clinton Administration certainly has been very

brief, and certainly no studies have been completed yet on what the results might have been.

We have all heard reports of a month or two of data in various places, but no systematic studies have been finished.

Senator LEVIN. Are there not some waivers, though, that were granted years ago in the Bush Administration where we should be able now to test the impact of those waivers?

Ms. ROSS. I know there were waivers granted then. I have not myself found out if there are studies available.

Senator LEVIN. OK. If there are studies—I am not suggesting that you do the studies—but if there are studies of waivers that have been in existence for some time and their impacts, if you could make those available to the Committee. I think that also would be helpful, because it is very true, what Senator Cochran said, that we surely ought to let States experiment and keep track of those experiments. Some of them, at least, have been experimenting for a number of years, and I think there is some data which might be available.

INSERT FOR THE RECORD

GAO has work underway to review the results of State welfare-to-work experiments conducted under specific Federal waivers. We expect to issue this report in July 1995; we will provide the Committee with a copy as soon as the report is released.

Senator COHEN. Would the Senator yield just for a point?

Maine recently adopted a provision, for example, that fathers who fail to make support payments lose their driver's license. It has had a major impact upon those who are now paying child support.

Senator LEVIN. You have made reference to the JOBS program, the Job Opportunity and Basic Skills program, which was adopted in 1988. But I think you said that the data that is available under that program is not very good. Did I hear you correctly?

That you do not have good data on the outcomes of that program.

Ms. ROSS. I was commenting on the fact that the Federal Government does not require the States to report outcome data in a way that you could figure out how many people actually leave the rolls and go to work.

Senator LEVIN. My understanding of that program was that we were assured in the conference report in that Act that there would be precisely those reports that you say are not available to us.

That is really extraordinary, because there were references during that Act and in the conference report to getting exactly the kind of data in the useful form that you are talking about, and if it is not available, it seems to me that the Act maybe has not been complied with.

Has there been an insistence that the States provide that data to us in usable form?

Chairman ROTH. Would the Senator yield? I would just like to point out that the Assistant Secretary for Children and Families will be testifying. She may be able to answer those questions.

Senator LEVIN. That is fine. Do you know the answer to that question?

Ms. ROSS. I know that there was a requirement that a report be made to the Congress back in 1993. The date was changed toward the end of 1994. A report was made by HHS which said that they were going to work on these kinds of outcome measures, and they would implement them in 1998.

And our comment on that was: That is 10 years after the bill was originally passed; it seems like a long time.

Senator LEVIN. Thank you. Thank you very much.

Chairman ROTH. Senator Grassley.

OPENING STATEMENT OF SENATOR GRASSLEY

Senator GRASSLEY. As you have said so many times in the discussion, the discussion today or even any other time the subject comes up, legislators are concerned about being overburdened with all the regulation that goes with their responsibility to run the Federal programs—that they are going to get the Federal dollars.

Now I do not know whether your study dealt with this directly or not, but I am sure if it has not, I still would like to know your experience and your concerns from this standpoint.

What would be the concerns with the Federal Government giving States the freedom along with the responsibility to address the social needs of their respective States by the block-granting of welfare funds which would, as far as I am concerned, carry with it very little Federal direction?

Ms. ROSS. Well, Senator, GAO did a good deal of work in the 1980s looking back at the block grants that were initiated in the early 1980s, so we do have a body of work to comment on.

And one of the issues about block-granting something the size of the AFDC program is simply the matter of how large it is. It is much larger than anything that would have been block-granted in the past. And that issue about size brings us questions about what kinds of assurances would the Federal Government want in order to just satisfy oversight and audit requirements.

Now I am from the GAO. I am concerned about things like audit requirements and oversight for these very large sums of money, \$25 billion a year. There is that kind of issue.

There is also an issue——

Senator GRASSLEY. But you could have those requirements without the red tape of how the money be spent, except in very broad—real broad areas. You would still have accounting.

Ms. ROSS. Indeed, yes. I am not trying to say these are reasons not to do block grants. I am trying to say these are issues that somebody would want to address in the——

Senator GRASSLEY. Mine was a clarifying point.

Ms. ROSS. Pardon?

Senator GRASSLEY. Mine was a clarifying point. So go ahead.

Ms. ROSS. And as you talk about accountability, what kinds of assurances that we think that you—certainly in today's environment where people are talking about outcomes or results-based programs—that you probably would want to have some results-based requirements as part of a block grant when you give the money. However limited the requirements, some of them might be: Well, for whom did you do the purpose of the program? For exam-

ple, on AFDC, how many people left the program and went to work?

Another issue that came out of the work that we did in the 1980s had to do with exactly what kinds of clusters do you do when you block grant?

I am aware that you have introduced a bill specifically on AFDC and another on some other programs. One of the concerns is whether you are talking about client-based block grants, which is, I think, what you have in mind or some other kinds of block grants which talk about consolidating all programs of a particular type like employment programs.

And there, while you might be able to gain some administrative efficiency, you do not gain any focus on either the individual or looking at the broad set of programs that go to an individual to try and maximize impact. So exactly how you fashion a block grant can also be an issue.

Senator GRASSLEY. Mr. Chairman, that is all the questions I have.

PREPARED STATEMENT OF SENATOR GRASSLEY

Mr. Chairman, I am pleased to join this Committee in looking at ways to address the present crisis the welfare system is facing. I believe that in order for us to make the necessary changes to the system that are needed, we first must ask some very basic questions.

This hearing, I believe will provide us the forum to focus on not only the problems of the welfare system but some of the initiatives that States have made to improve the existing system. And so Mr. Chairman I want to commend you for giving us this opportunity to address the problems in the structure of the current welfare system.

I believe we must focus on total reform of welfare. Because if we are not careful and view this only as a budget cutting exercise only, these programs with their structural deficiencies will remain.

As I have proposed in my welfare bill, I believe that it is crucial that welfare reform cap welfare costs. We cannot allow these programs to continue to grow at the rate they have in the past. In addition we can no longer allow programs to be rewarded without meeting a target objective.

Another issue that must be addressed in real welfare reform is the serious rise in out-of-wedlock births, which I believe is welfare enemy No. 1.

There is almost unanimous support across the political spectrum that something must be done to address this situation. The consequences to the child, the mother, and society are simply too serious to continue to ignore.

For over 30 years, we have treated this issue as if it is simply a "moral" question, thus, one in which government should not become involved.

Recent studies have shown, however, that children born outside marriage are two to three times more likely to have emotional or behavioral problems than those in intact families. They have higher risks of child abuse and neglect, poor school performance, having children of their own as teenagers, and six times greater risk of being poor.

The absence of parents frequently leads to out-of-wedlock births and welfare dependency for a series of generations.

These are the consequences of the government acting as the father. To continue to ignore these factors will result in greater destruction for children, young mothers, and society.

Finally, we must require able bodied recipients to work for their benefits. All other American families go to work to receive a paycheck to support their families. The American public should expect no less from recipients of public assistance.

I look forward to today's testimony, and again I commend you for this hearing.

Chairman ROTH. Thank you, Senator Grassley, and thank you, Ms. Ross.

Our next witness is the Hon. Carroll Campbell, who is the former Governor of South Carolina.

Governor Campbell, it is a pleasure to welcome you here today.

Time is moving on. So it is my intent to limit questions to 5-minutes with the understanding, of course, that the record will be open for written questions.

**TESTIMONY OF HON. CARROLL CAMPBELL,¹ FORMER
GOVERNOR OF SOUTH CAROLINA**

Mr. CAMPBELL. Thank you very much. I am delighted to be here. I hope that you have a copy of the statement that we have entered. It was sent over to your staff to distribute.

But if you will permit me, I can be very brief. I can go in, and I would be happy to answer questions.

Chairman ROTH. Your full statement will, of course, be included as if read.

Mr. CAMPBELL. Thank you, sir.

Just as I left the governorship, I was pleased to announce that we had gotten a demonstration project for my State. But it had taken us over 6 months to get it through. They do not come easily, as you talk about getting waivers.

And also the projects are modified dramatically as you try to get them. If you ask to be able to do things from the Federal Government, oftentimes somewhere in the bureaucracy little prescriptions are written in that keep you from trying some of the things that you think might work.

And so we were not able to get the entire project that we asked for as a demonstration project. Most of the waivers that have been discussed, of course, have been about demonstration projects.

And I am deviating a little bit just to get to the point that, yes, the States have done a lot of work, and, yes, we have some successes out there. And Senator Levin was right on target with it. There are things that can be adopted, and they are the types of things that will help people, as well as sometimes save some money. Help people comes first, and I think that is the important part for us to remember.

Our project is a four-county project. It is four counties because not only do States have different populations or different costs-of-living; internally in States there are different costs-of-living, different problems, different inner city problems versus maybe a smaller urban community than maybe a New York, maybe a small city that would not have the same problems. All of these have to come into the equation, and so you have to design these programs to deal with the reality of the circumstance. And this is what we have tried to do.

Now what we have done is this. We have set up four—in our State, we have four programs that benefit families, and it allows the full family AFDC cutoff in two of those four counties if they do not live up to the contract.

And essentially it is a prescriptive contract that we go into. It is a comprehensive assessment of each adult before they go into it to determine what education or training is necessary, and we have an individual plan for each adult delineating what they have to do to prepare for employment and the timeframes that they will be allowed to complete that in. Then they have to go to work, or else

¹The prepared statement of Mr. Campbell appears on page 147.

they have to go into a public service job in order to keep drawing any benefits.

A failure to adhere to the plan results in a loss of all AFDC benefits in two of the counties under our waiver, and only for adults in two of them, to determine what incentive is there, and it serves intact families. In other words, there is no requirement in this waiver that we have got to move the husband out of the house in order to keep the family on welfare.

And I think that is a very important thing for us to realize. I used to serve on the Public Assistance and Unemployment Subcommittee of the Ways and Means Committee. Barbara Kennelly and I basically wrote the parental support bill. It was one that was written there to require parents to support their children; not just dads; in some instances, the mother is the main breadwinner. And in the breakup of a family, the requirements apply there.

There has been put into place a nationwide parent locator program. Most of them are operative now, and we can go out and find somebody that owes child support. We have a garnishment provision there. You can garnishee wages, and you can require those payments.

So these systems are in place. They are not something new that needs to be put in. They are already there. The laws have been on the books for 10 years. And so it is a matter of enforcement in some of these instances.

But that is the people that are working that you can get to pay, and those are the people that you try to go after.

Now what are we doing in ours? We said assets limited at \$3,000 a family, which is an increase from \$1,000 allowable. We disregard one vehicle, so they can go to work in that vehicle. We do not count the earnings of any teenage children that might be staying at home and have a part-time job, because we are not discouraging them. And we have, as they leave, an additional 12-month child care and Medicaid and cash benefits for some of the employed clients.

So we try to transition them into work. It requires parents to ensure that their children attend school and receive appropriate immunizations or lose their benefits. In other words, there is a parental responsibility in there for the children.

And so all of these are part of this program. The whole idea is about a 2-year effort to work a person off of welfare, get them into parental responsibility, get them into the workforce.

We have had some success with it, and we think that in an earlier effort, and we think this broader effort will demonstrate more success, and we think it is absolutely a tremendous thing.

But let me just say this. If the States have the freedom to innovate, we can solve problems. And that lack of freedom to innovate and the hamstring that is put upon us by regulation stops us from doing many, many things.

I will give you an example of that. One of the biggest problems in America is children having children, one of the great contributors to welfare, by the way. And children having children, they oftentimes are having children that are not healthy. The cost is astronomical on Medicaid, as they go into the neonatal intensive care units; the cost is astronomical.

Cost-avoidance and saving of life is all part of this welfare program, if you are going to do it right. And in so doing this, in our State, we did something simple. We found out everybody said you needed new programs. We did all kinds of surveys and found out that the problem was we did not need the new programs; the people that needed the programs you had were not using them correctly, and therefore they were costing you twice as much as they ought to because they were not doing it.

We did something very simple in our system. We went to the private sector and said: Would you like to advertise? We will give you something. We created a book, and it was called "Caring for Tomorrow's Children". "Caring for Tomorrow's Children" allows people to give free coupons in that book for an expectant mother that tells her what to do. We give them out to any female. It tells them how not to get pregnant; if they get pregnant, what to do, where to go.

The key to it is, the coupon can only be validated at the Health Department, the clinic, or the doctor's office. She has to go for her checkups; she has to try to bring a healthy baby into the world.

Does it work? It has cut our infant mortality rate 21 percent in a little over 2 years with no new programs.

Why does it work? Because several things are in it. Every fourth or fifth coupon has a transportation by cab that you can validate to get to the doctor. There is a coupon to go to a technical school for training. There is also a coupon for milk, pizza, and a few other things. And if it takes a pizza to get a girl to go get a physical to make sure she gets a healthy baby in the world, it is a cheap price. It is also combining public and private. That is just an innovative program that works.

Another problem that you are going to face in this welfare system that I think is extremely important, and we do not look at it too often, is the situation that has to do with the Medicare and health side of it.

Our tort system, I could not get anybody to practice obstetrics out in the rural areas of my State, and you cannot get them in many other States, and the reason you cannot is because they are held to a standard in the courts of a hospital delivery of services. Even though they are not supposed to be, that ultimately is the way they are tried if there is any kind of problem.

We had to get tort reform. We got tort reform. We got doctors back into obstetrics. We got them to deliver those children. We got them to take care of those mothers.

That is the front end of welfare. That is dealing with problems that might happen or the result that might come from not dealing with them in the expansion of welfare and public support.

But I think that the changes that will allow us to do this will come with an ability of the States to have the freedom to combine programs to deal with some of these issues that I am talking about.

For instance, if we want to have a person go to work, give us a chance with a Federal program to do something in a combination.

Senator Lieberman was saying just a moment ago, talking about the child care and the transition, there is no question that the care of the child and the mother going to work are extremely important. They are inextricably linked.

Let me tell you what we did with a pilot program with State money—no Federal money, with State money. We got in there and we put this together, and we decided we would take our senior citizens, and we would combine them with a child care center and a technical school.

And we opened that school to people that were on welfare, single mothers, and we gave them the coupon to go to school. They could put their children in the day care center, child care center, at the technical school, and they had, of course, a trained and licensed person that would run the center.

But then we brought the senior citizens over to talk to the little children, to spend time with them, because that is what happens with so many of them; they are not talked to.

Did it work? They broke our door down to try to get in with a backlog of people because it was limited in its capacity.

And then we transition them when they learn how to earn a living. We keep the job for 1 year and transition them as their earnings go up into a payment schedule, so we transition them off instead of having a cliff that you fall off.

We were doing that as an experiment. I am giving these as examples of the kinds of things that can be done if we have flexibility in the States on a broader scale.

I think that as you look at the administration of a lot of these things and you understand that we have a lot of different programs that we are dealing with and recognize that as we are talking about all of this, we are talking about such things as child welfare, social services, employment training, health, housing. All of these come in and under the general rubric of public assistance. And that is exactly what we are trying to put together, and how to put it all together is important.

Grants, block grants to States can work. I am not foolish enough to sit here as a former member of Congress or anything else or a legislator and realize that there are not going to be some requirements and restraints and constraints on what you can do.

But the bottom line is, is that if we can have the flexibility in some of these areas of block grants where you can design programs that are holistic, that are not the piecemeal efforts that we go forward with, and allow some transfer of some of the funds between the areas that you may need in your State to address more of a problem, out of some of the programs it may be we need more in education or more in health in a different State or a different community, so that we can design those programs, we can make them work.

But we cannot make them work if they are micromanaged in a bureaucracy out of Washington and you are having to jump through every hoop in the world in order to try to get assistance to somebody in an orderly manner that works.

And that is essentially the point that I wanted to make. As I said, a lot of us have been working with the Congress; a lot of us have done a lot of things, and I have abandoned the reading of my statement because I think I could probably put it to you pretty straight.

If you did block grants, I think there are two or three things that States would be afraid of. I think that States would have to expect

some reasonable restraint in reporting requirements that would have to be adhered to.

The States would be afraid of the fact that the Congress, somewhere along the way, might decide we will just start reducing this block grant. So there has got to be a fail-safe in that thing, if you go that route.

And the other part of it is that there has to be some type of adjustment, as you would anything else, on inflation, but you ought to cap it.

Now a lot of the States have dealt with their problems of growth in their programs such as retirement and other types of benefits that come under State programs and entitlements by capping them. Our cost-of-livings are generally kept at 4 percent. The Federal Government ought to do that with every program you have got. We would not get blown out of the water if you have hyperinflation sometime.

But you have got to cap these things reasonably, so that you are not having a loss to the people in real terms, but you have a realistic cap on them.

These are some of the things that I think States will look for as they try to work with the Congress and try to determine whether, in fact, we can reach a position that will be better serving our people.

And that is the bottom line: Can we better serve them? Can we get them to work?

And those are the problems that we are going to face—education, health, premature births, all of those, and they have to be wrapped up into a comprehensive program in order to succeed.

And it cannot be run out of Washington. And every State will not be the same, and every county in every State will not be the same, because their populations are different; their income levels of the whole community are different; all of these things are different. And one size does not fit all.

Thank you, sir.

Chairman ROTH. Well, thank you, Governor Campbell.

As you have alluded to, a lot of the debate is whether we should go the route of block grants, or should we continue with specific programs, but with more flexibility in respect to waivers.

Do you have any strong convictions as to which means is better? Do you think, for example—as I understand it, the AFDC has substantial waiver authority; food stamps has much less; and housing has virtually no waiver authority—what do you think would make the most effective approach?

One of the things we are trying to do, of course, is reduce the administrative cost, so that maximum dollars are getting to those that we are trying to help.

What would be your recommendation as to the approach?

Mr. CAMPBELL. Well, I think you should look at the block grants and move rather deliberately on the 8 block grants that are being discussed, because if you do that and create with that some transferability between the grants to meet specific needs, as I mentioned, it is, in my opinion, a much more efficient way to go.

Now some people have said let us have one great big block grant. You may want to go that way. But we have about 8 that you can use transferability to organize a program through.

The idea of waivers, while it sounds good, is that I have been to the—I have been under the Bush Administration, and I have been under the Clinton Administration, and I have been under the Reagan Administration to get waivers.

And I am going to tell you, Presidents come, Presidents go, Senators come, Senators go, and the bureaucracy acts the same most of the time. And it is a nightmare in most instances to get a waiver.

No matter how well-intentioned the Congress is or the President is, when you get down to jumping through all the hoops and dotting all the "i's," it can be held up and held up and held up. And it is very difficult. And I think you should have the flexibility on the block grants.

Chairman ROTH. Let me ask you this question. As I recall in your prepared statement, you made some reference to submitting the proposal to the Government, the Federal Government.

Mr. CAMPBELL. Yes.

Chairman ROTH. Would they have to approve it? And if they do have to approve it, does that get you back into some of the same problems of a waiver?

Mr. CAMPBELL. Well, what we were saying was that, as I referenced earlier, there are going to be a few guidelines that are going to have to be met and some requirements in reporting in the program itself as a general program.

I have no problem—I have no problem with an objective program with some general guidelines and some reporting in it.

Where we have our greatest problem is, is the tendency to try to micromanage and tell you how somebody in Washington that works in some agency wants it done as opposed to what you think needs to be done in the State that you are in. So I think you could reach an accord on that.

Chairman ROTH. You mention having certain goals or purposes. I would like to get a little better feel as to what kind of goals you are talking about.

For example, would it be desirable to have some work requirements as a general goal?

Mr. CAMPBELL. Yes, sir.

Chairman ROTH. We recently passed some performance and results legislation. One of the purposes of our welfare programs is to get people off welfare, back into the mainstream. Would it make sense to have some kind of requirement that there be such goals set and reported back to the Federal Government?

Mr. CAMPBELL. Absolutely. I think there are several areas that you could talk about.

One is the work requirement, which we would all like to see. The other, in some instances, is an education requirement as a component of it to prepare somebody. If they are linked to an education program, they have to stay in it and complete it and then go to work.

And those are the types of things that we would try to seek, because we want to transition people into self-sufficiency.

The problem that we have in this overall situation is not trying to get a system that we seem to have that seems to tend to make independent people dependent. We are trying to make dependent people independent. And that is where any program that we put together ought to aim. That ought to be the overall goal.

And there are going to be certain transitional steps that have to be taken to reach it, but that ought to be the goal: Limit the time that they have to accomplish that in a family, in a parent going to work.

But I will go back to one thing. If it is the mother and there are children, the child care component will be a major part of whether you can be successful.

Chairman ROTH. From your statement, you do feel it is desirable that the Federal Government have some kind of cap. It seems to me that that makes good sense, if they are going to have few strings attached to it. Obviously you do not want the States to be able to run up the Federal indebtedness by—

Mr. CAMPBELL. Absolutely.

Chairman ROTH [continuing]. The liberality of their proposal. In a sense, it is the opposite of unfunded mandates.

Mr. CAMPBELL. Well, it would be. It would have it streaming back the other way.

But the fact is that we have to accept some restraint, but we also have to have enough flexibility to make it work. And that is the tradeoff. And I think it is a very, very reasonable tradeoff and one that will probably benefit an awful lot of people in this country.

Chairman ROTH. Senator Cohen.

Senator COHEN. I will be very brief, Mr. Chairman, and let me thank Governor Campbell for coming to testify and waiting so long through our questioning of the prior witnesses.

But I think you have sounded a theme which, "will resonate" with a lot of people of different political philosophies.

I have been reading some of the works and writings of Professor James Wilson, and much of what he says, in fact, you have been doing.

He started out basically with three precepts. And frankly I heard President Clinton talk in terms of the same sort of precepts last evening.

The first precept is that our overriding goal ought to be to save the children, the No. 1 goal. Aside from reducing welfare costs, eliminating welfare dependency, all the discouraging illegitimacy—those are worthy goals, but they are secondary to saving the children. I think I heard President Clinton say that as well.

The second precept is that nobody knows how to do this on a large scale. We can have lots of untested assumptions. We can try to listen to those who recommend work training on the one hand and those who want to have cutoffs, but we have no large scale assessment that can be made.

The third precept is that the Federal Government cannot have a meaningful family policy for the Nation. It is absolutely impossible for the Federal Government to formulate a meaningful family policy, and it should not even try. It will only serve to make matters worse.

So what he had recommended is essentially what you are recommending and have been doing, only having to go through the waiver process, but basically to turn the task and the money for rebuilding the lives, the welfare payments, the housing subsidies, the whole lot, over to the cities and States and private agencies, subject to only two conditions.

First, they must observe minimum but fundamental precepts of equal protection. And second, every major new initiative must be evaluated by independent observers operating in accordance with accepted scientific canons. Those are the two conditions he would impose upon them. And I think that many of us would support that.

And as you have indicated, what we are going to do is sacrifice uniformity, what he would call perhaps a "deadening uniformity", for a variety of programs, some of which may work and some of which may fail.

Some States might recommend, for example, eliminating AFDC altogether. Other States may impose a work requirement. Other States may say that you turn over your checks—the recipients of these checks—to private agencies who would then take over parenting responsibilities and teaching responsibilities.

But essentially what you would get out of this variety of experimentation is a new vitality of dealing with problems by those people who live closest to the people that they serve.

All of us who have been up here, I think, in one capacity or another have worked at the local level, myself acting as a city councilman, a school board member, a mayor. And we all know that it is tougher down there than it is up here.

I have said this over and over again. It is much tougher being a town councilman, a city councilman, a mayor, a governor, than it is being a U.S. Senator or a U.S. Congressman, because you are closer to the firing line. You have to be more responsive; you have to deal with the issues on a day-by-day basis and come up with creative solutions.

And all we have to do is pass uniform laws, establish uniform regulations, which have over a period of time—as you have indicated, we come and go, but the bureaucracy stays—it has a stultifying effect, and you have to go through every hoop and hurdle in order to overcome those rules and regulations in order to get some experimentation, which, in fact, may be more beneficial to the people that we are seeking to serve.

So I want to endorse much of what you have said. I did not have a chance to read your statement prior to your coming here, but I know the work that you have done and want to commend you for the kind of vigorous leadership you have shown in this particular field.

Mr. CAMPBELL. Thank you, sir.

Senator COHEN. Thank you, Mr. Chairman.

Chairman ROTH. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman. Governor Campbell, welcome back, and it is very good to see you.

Mr. CAMPBELL. Thank you.

Senator LIEBERMAN. Thanks for your excellent testimony.

I am supportive of so much that you said, both in principle and in the specifics, and I am very interested that in the tests that you have going on in the State, that you have used the form of a contract, and actually in the contract with the recipients, you have embraced some of the ideas that people have that need to be tested.

One question I have is—and I know that approval of the program just came in, did it not, so—

Mr. CAMPBELL. Yes.

Senator LIEBERMAN. So you do not have any experience yet. But what does the program say if, in fact, there is a determination that the recipient has not lived up to the contract? In two of the counties where it is being tried, isn't it the case that the full family can be cut off of AFDC?

Mr. CAMPBELL. Right.

Senator LIEBERMAN. What happens to the kids in that case? Is there any support, a safety net for them?

Mr. CAMPBELL. Yes, there would be. And the reason that it is being tried—and the Federal Government is the one that asked to try the two different ways—one was to determine whether the incentive when the whole family was involved was greater than if you had just lost your AFDC for the adult. In other words, there are other things that would still hold for the children.

The whole family being cut off would cut them off from certain things that would be listed, and it would be the type of a situation where a family would be told all of a sudden: Look, you are not going to have any rent assistance; you are not going to have this, and you are not going to have that, if you do not adhere to this and go get your education and go get a job or be in a job search an active job search in a period of time.

It is rather Draconian. Sometimes you have to determine whether you need something that is a little Draconian to get somebody's attention. In my part of the country, it is called hitting a mule in the head with a two-by-four to get his attention before you can talk to him.

Senator LIEBERMAN. We say that occasionally in Connecticut, too.

Mr. CAMPBELL. Yes. So it is just one of those situations.

The other is whether, in fact, just the smaller portion that is the parents is enough of an incentive.

Now I have talked to a lot of different welfare groups and mothers. Do not think for a minute that they do not know where the cash cutoff is, where they are better off going to work and where they are not. They can tell you right down to the penny, most of them.

Senator LIEBERMAN. You are absolutely right.

Mr. CAMPBELL. They are not dumb on this subject, and they know right at the borderline where they need to stay, and a lot of them are very good at it.

As a matter of fact, we have, in our studies in South Carolina, found fourth generations who have never seen anybody go to work—fourth generation.

So there is a problem out there that is beyond the people that want to go to work and cannot find a job and have to go on welfare. There is an institutionalized welfare culture out there that you also

have to deal with, trying to get into, in order to, as you said, Senator, save the children, because that is where you are aiming.

And our efforts on this are first to try to get a healthy baby—first try to avoid the teenage or the young children's pregnancy.

Senator LIEBERMAN. Right.

Mr. CAMPBELL. I mean, we delivered two 10-year-olds in Columbia, South Carolina last year, to give you an idea about how fast this thing is multiplying and what you are dealing with. It is scary.

But to try to educate them, try to do something to get things on a normal type of plane for them as they grow up, and at the same time to try to educate the parents, a healthy child, try to get them their immunizations by the time they are two.

We took our State—last year we had about the lowest immunization rate of children in the whole country, and in 18 months we have the highest immunization rate in the country of children under two.

Senator LIEBERMAN. Good for you.

Mr. CAMPBELL. And we had a public/private partnership. We brought our doctors under the umbrella of the State, so that they would not get sued out there when 1 in 100,000 children might have had a reaction. And we went out and did it.

So there are certain things you are going to have to do collectively. And the States can do those. You cannot do it out of Washington.

Senator LIEBERMAN. Do you—

Mr. CAMPBELL. But we can do them.

Senator LIEBERMAN. I am sorry. You talked about some of the Draconian stuff. But when you talk about a 10-year-old giving birth to a child and you think about the future of the baby—

Mr. CAMPBELL. Oh, yes.

Senator LIEBERMAN [continuing]. And the odds against that baby and how much better it is going to be if we create some of the alternatives, let alone the impact on that 10-year-old, what is the future of that child going to be as she grows up. So I do not worry about the word "Draconian", and in a proposal that I have mentioned that I referred to earlier, I do want to give wide latitude to the States to experiment with these programs and see which work, and then when they find out they work, we will apply them nationally.

The one qualification or caveat or requirement that I would make is that there be some certification at the Federal level that the program does still maintain a safety net for the children, that we not, in that sense, punish the babies for the sins of their parents here.

And if I hear you on the program that you are trying, even if AFDC is cut off for the whole family, I presume that Medicaid, food stamps, and some other benefits of that kind might be available.

Mr. CAMPBELL. The children's things would remain. We have a list of the things that they cut off, when the family cuts off, and it is really to try to—it is more of an incentive to test whether they go completely off, and then if you had to catch the children in a safety net, you have that ability—

Senator LIEBERMAN. Right.

Mr. CAMPBELL [continuing]. Whether it is under the WIC program, as you are talking about women, infants, children type support programs and some of the other programs that we have.

And it is—I do not really anticipate, to be perfectly honest with you, having very many instances. But in some instances—let us be very blunt about something—in some instances where the family itself has deteriorated and that child is in an extremely bad situation, and you cannot get them to do anything to help, we do it now. We have to sometimes take a child out of a home. Nobody likes to do that.

Senator LIEBERMAN. Sure.

Mr. CAMPBELL. We put them either in foster care or in a temporary facility. Nobody likes to do that. But if you have a child that is in a family, that has perhaps got parents or a parent that may or may not be an alcoholic or a drug addict or whatever they happen to be in this program, or maybe somebody that just will not do it and does not take care of those children, you have to do something, but you are going to save that child one way or the other.

Senator LIEBERMAN. I agree. Let me ask you this: The current waiver—oh, I am sorry; I did not see the light.

Thanks, Governor. Thank you, Mr. Chairman.

Mr. CAMPBELL. Thank you, Senator.

Chairman ROTH. The hour is growing late. Otherwise, I would—

Senator LIEBERMAN. No, sorry. Thank you. I appreciate it.

Chairman ROTH. Senator Levin?

Senator LEVIN. Thank you, Mr. Chairman.

Let me first commend you on your testimony and on your good efforts in this area.

I am intrigued by your contract. People are assured in your contract, as I gather, that they will be offered training or an education leading to a job. They are also apparently assured that there will be a job of some kind, that they will be offered a public service job if they cannot get a private job. Are both those things true?

Mr. CAMPBELL. That is right.

Senator LEVIN. What about day care? Are they assured of day care, too?

Mr. CAMPBELL. We have some day care components in it. Let me ABC it. I am sorry I did not give it to you right, and I will be very quick about it.

It is an assessment first, and then there is an individual plan for each adult to determine what they have to do to prepare for employment, and they have timeframes based on their educational level as to what time you give them to get prepared. If they are a high school graduate, it will be much shorter. If they are a seventh grade dropout, then obviously you have a different thing.

Upon the completion, they have to go to work or be assigned to full-time public service, one or the other. And failure to adhere to the terms of it, they are going to lose their AFDC benefits for people in Charleston, and broader benefits and for adults only in Berkeley and Dorchester.

It will serve the intact family. We are not running the husband out of the household. I mean, you are running a potential bread-

winner out when you run him out, and we have kind of had that situation a long time, and I do not think it works real well.

The recipients are going to be required to participate in a work training program when the youngest child is 6 months of age. We are not going up to 2 years of age.

Senator LEVIN. Who pays for the training program?

Mr. CAMPBELL. The training programs that we have would be part of our general education program, whether we put them into our programs that have to do with our technical schools—and most of the time, we switch into the technical schools; we are having adult training with them, and we have them located, 16 of them, throughout the State.

Senator LEVIN. Is someone not on welfare going to be eligible for that same training?

Mr. CAMPBELL. They are, but there is a payment scale as opposed to some subsidies.

Senator LEVIN. If you are on welfare, is the payment waived?

Mr. CAMPBELL. We will pick up some of that cost of them. But right now in our adult education program, we have absolutely free training in a lot of it.

Senator LEVIN. So there are some instances—what I am driving at is that someone on welfare will be given a benefit that someone not on welfare would not be eligible for?

Mr. CAMPBELL. They might be given a benefit or they might have a lower cost if you have them participating in order to transition.

Senator LEVIN. One thing has always worried me about benefits like this to people on welfare. While I understand the reason why you want to have incentives to get off welfare and have requirements to get off welfare, not just incentives, if we provide greater benefits to people who are on welfare than to people who aren't, the working poor—like if we give day care to someone on welfare but not someone who is off welfare—then the person who is not on welfare who is making a minimum wage is saying, gee, if I were on welfare right now making minimum wage, I would have day care for my kid. The person over there who is making minimum wage, getting off welfare, doesn't get day care or get the training benefit or gets whatever that benefit is.

There has been a lot of resentment in that area. How do you address that issue?

Mr. CAMPBELL. OK, the working person may still have—for instance, under a Medicaid waiver I have, a working poor person can buy into Medicaid or actually be eligible to maintain Medicaid at a certain level of earnings and can buy into it as they go up.

As they participate in their increase in earnings, they can still buy into that program.

Now, that is an idea of another combination of programs and we had to get a waiver to do that, so that we take that person who is working, that wants to keep their health benefit, and they can buy into it at a very low cost and, as their wages increase, they pay a higher part until they transition off.

Senator LEVIN. If there is still a differential in the availability of a benefit to someone on welfare to that working poor person who is not on welfare, you get resentment. In fact, it is an incentive to

go on welfare because the only way I get training or that day care is if I go on welfare and then move off of it.

My question is are there those benefits—and I understand the dilemma, by the way, I don't have an answer to my own dilemma, believe me—but is there a problem in that regard? That in the contract you would be offering benefits to people which are not available to a working poor person with children who is not on welfare?

Mr. CAMPBELL. I would have to answer your question that probably on certain occasions, there are, but let me clarify that just one bit.

If a person is not on welfare and they want to go to school, there are open-door policies. The adult education programs are wide open. They are there, they are available to them, it is not a cost. It is part of our program. It is part of our State education program.

Senator LEVIN. OK.

Mr. CAMPBELL. If you come in to create jobs, we train your workforce for free. So if I am a marginal-level worker over here, say, making \$6 an hour, and a company comes in that is going to pay \$12 an hour and I would like to get a job—and the technical schools do free training as part of our education program, so that they can upgrade themselves and apply for the other job.

Senator LEVIN. The performance standards were required in the 1988 Act, and apparently we have not gotten the reports required by that Act from the States. The Act was intended to give greater flexibility to the States with the condition that we wanted specific measurements of outcomes. We haven't gotten them from the States.

Do you know why?

Mr. CAMPBELL. I can't answer you on what they were.

Most of us have some reporting that we give to the Federal Government on a regular basis on a lot of our programs, and they do surveys on us and if they don't have all the data, I don't know why.

Senator LEVIN. I think we will hear from the next witness. Thanks so much.

Mr. CAMPBELL. Thank you.

Chairman ROTH. Thank you very much for being here today, Governor Campbell. Your testimony has been most helpful.

Mr. CAMPBELL. Thank you very much.

Chairman ROTH. Next, I would like to call on the Hon. Jane Campbell, President, National Conference of State Legislatures, and no relation, as far as I know.

Ms. CAMPBELL. Not as far as I know, either.

Chairman ROTH. It is a pleasure to welcome you, Ms. Campbell. Your full statement will be included as if read, and we look forward to hearing from you.

TESTIMONY OF HON. JANE CAMPBELL,¹ ASSISTANT MINORITY LEADER, OHIO HOUSE OF REPRESENTATIVES, AND PRESIDENT, NATIONAL CONFERENCE OF STATE LEGISLATURES

Ms. CAMPBELL. Thank you, Mr. Chairman. I brought a visual aid for the Committee. These four books are the regulations which are necessary to apply for the welfare program just to simply apply for

¹ The prepared statement of Ms. Campbell appears on page 151.

food stamps, AFDC, and Medicaid in the State of Ohio, and I think they give you a little bit of background.

Before I get started officially with my conversation with you, I want to bring you special greetings from the immediate past president of the National Conference of State Legislatures, Bob Connor.

As you know, Bob is doing the people's business in Delaware, and so he couldn't be with us today and asked me to make sure that he was especially remembered to those of you who are here, and particularly to his own Senator.

Let me tell you, just by way of starting this conversation about welfare, that I think we need to take a minute to look at how we got into this dilemma. Welfare was created during the Great Depression. It was created to establish a mechanism to make sure that widows and children didn't starve.

It was created with a different set of expectations. We didn't expect women to work. It was created for long-term dependency, and it hasn't been fundamentally changed since its creation—there has been a lot of tinkering on the margins—so I don't know why we are so surprised when it is a long-term dependency program.

In fact, if we also look for a minute at what has happened over the last 30 years, 30 years ago President Johnson declared War on Poverty. And if we were going to look realistically at the plight of children in this country, after 30 years of a War on Poverty, poverty is winning for children.

In the State of Ohio in 1970, 13 percent of our children lived in poverty. In 1990, 18 percent of our children live in poverty. That means that 484,000 of our 2.8 million children in the State of Ohio are living in poverty.

We are very anxious at the National Conference of State Legislatures to work with you in trying to create a new system that will invest in family independence, that will invest in our ability to move children out of poverty.

I think that it is time that instead of saying the measure of success for our involvement with these programs is whether or not we have properly filled out all the forms that are generated by these regulations, the measure of the success ought to be whether we have moved children from poverty into independence whether we have created a situation where their parents are able to provide financial security for those families.

I think it is important if we take for a minute—step back and say, what is the right question? We have to ask the question of—and it was Senator Cohen from Maine, who sort of came up with his three points of, are we going to save the children, how do these programs work, and this is not something that you can design at the Federal level. This is very much in concert with what we have been doing at NCSL. In fact, it has been the States who have been doing welfare reform in different configurations.

You had in your earlier questions—someone asked the question about tell us about something that is really working; tell us about something that has made a difference. I bring to you a story about something that we have done in the State of Ohio. It started, actually, in 1988. We looked at that time at teen parents. Because teen parents are particularly susceptible to long-term dependency, they have very special needs.

We were able to secure a waiver to create something that we call the Learning, Earning, and Parenting Program, which was a combination of dealing with a financial incentive and providing a specific counselor to work with young people who were parenting and who were on welfare.

Now, we have carefully evaluated that program. The MDRC has been doing the evaluation, and after several years, we are able to say that that program has been, for us, a success. Fifteen percent of our non-LEAP parents actually graduated from high school, and 21 percent of LEAP parents graduated from high school.

There is also a significantly higher graduation rate—

Chairman ROTH. We have a vote, so I am going to run out and vote.

Ms. CAMPBELL. OK.

Chairman ROTH. Senator Lieberman will preside.

Ms. CAMPBELL. Very well. Thank you, Mr. Chairman.

Senator LIEBERMAN [presiding]. It is a pleasure. [Laughter.]

Ms. CAMPBELL. The LEAP Program has worked for us, but more important than working for us, it has worked for those children and it has worked for those parents.

So what I think we need to recognize—

Senator LIEBERMAN. Just state the difference again between the numbers and the results.

Ms. CAMPBELL. This is April 1994 data.

Senator LIEBERMAN. OK.

Ms. CAMPBELL. There were approximately 10,000 Ohio teens who were eligible for LEAP, and 5,200 were fully participating. The high school graduation rate for non-LEAP teen parents was 15 percent. For teen parents participating in LEAP, it was 21 percent. And the cost per teen to participate, our cost, was only \$1,000, so this is a modest annual investment in actually securing high school graduation.

The other interesting thing is there was a statistically higher graduate rate among teenagers who lived with their parents. We did not put a mandatory requirement that you live with your parents, because there is some question about—there are some circumstances under which that is not the best option.

But when the teenagers did live with their parents, they had a higher graduate rate.

Senator LIEBERMAN. I don't mean to interrupt you, but just very briefly, it is very significant in this area that a progression from 15 to 21 percent is significant.

I mean, to the average person walking through the room, it might not seem significant, but dealing here, it is, and it is in small steps like that that we are going to achieve change.

I am sorry, go ahead.

Ms. CAMPBELL. That is fine.

The other thing, Mr. Chairman, is, the National Conference of State Legislatures would argue vigorously for State flexibility.

I share with you the LEAP statistics and the LEAP information because that is a circumstance that our State has tried, but at the same time there are a number of other things.

We have a welfare reform waiver pending to do something with the earnings disregard and the 100-hour rule. We have just been

granted a waiver to deal with a health care measure which is called OhioCare.

In the waiver process, there are some good things and some bad things. If we are going to retain the waiver process, one of the things that the National Conference is concerned about is making sure that the legislatures are involved in the waiver process at the front end.

The LEAP program was authorized in the budget and so there was already State law giving us essentially authority to move forward with that program. And so when the negotiations, which were essentially Executive Branch negotiations between executives in Washington, executives in Columbus, came forward with the program, they could go on ahead and implement it.

Contrast that with this OhioCare waiver which was just granted last week. To date, the legislature has not been involved in those negotiations at all, and we are about now to confront the task of figuring out what kind of major State law changes there need to be.

And because all those negotiations went on before the State law issues were addressed, the legislature is in a difficult position because if we ask too many hard questions, the answer we get back from the administration is, well, we can't really do that because we might put the waiver at risk. So we are concerned that the waiver process does not fully engage the legislative authorities.

Senator LIEBERMAN. That is a good point. I guess the question would be, responding to what Governor Campbell said as the last witness about the length of the process, would that not add another layer to the waiver process and therefore make it longer than it should otherwise be?

Ms. CAMPBELL. Well, Mr. Chairman, if you contrast just our two examples that I used, the LEAP example and the OhioCare, LEAP was authorized in the budget. We basically did the principal outlines and then said the department shall seek waiver in order to enact this.

So then we had to come in and we had to tinker on the margins to accommodate the negotiations, but the thrust of the program was intact.

The OhioCare has not had a similar activity and so it is almost as if there would be a circumstance where you could have legislatures essentially authorize the waiver negotiations.

My understanding of the way that they did it in Tennessee for what is now the TennCare Program is they made a fairly significant State law change to provide to the governor fairly extraordinary flexibility in negotiating the Medicaid program in Tennessee, and that was in hand prior to the negotiations between.

Now, the other question is if we are really talking about using the States as a laboratory for welfare reform, ought we to be spending all our time on the waiver process or ought we to be looking at, instead, providing States much more flexibility in their initial State plan? And so that we can simply say, here is the plan we intend to use, we have a number of options, and not have to do waiver negotiations on—we are engaged in waiver negotiations on waiving the 100-hour rule, which has been waived by, I don't know,

10, 12 States, increasing the earning disregards, which has been done by a similar number of States.

The welfare reform waiver that Ohio is currently negotiating on doesn't really have anything dramatic in it, doesn't have anything in it that no other State has tried. And so if we were going to really step back to the drawing board and say we were going to deal with State flexibility, we could accomplish that more effectively by permitting States to choose options rather than having to negotiate. I think there are now 30 States that are operating under a waiver.

Senator LIEBERMAN. Forgive me. That is a very good point. As much as I don't like to give up the pleasure of chairing, once again, I think I had better depart to make sure I don't miss the vote. So if you would just stand at ease for a moment, I am sure Senator Roth is on the way back. I will be back, too.

Ms. CAMPBELL. OK.

[Recess.]

Chairman ROTH. I apologize, Ms. Campbell, but I guess from your own experience you know the problem.

Were you able to finish your testimony?

Ms. CAMPBELL. Mr. Chairman, I was working on my testimony, actually. Senator Lieberman sort of asked me questions as we went along.

Chairman ROTH. Yes.

Ms. CAMPBELL. We had a discussion, shall we say, which was fine with me.

Chairman ROTH. Good. Please proceed, then.

Ms. CAMPBELL. Mr. Chairman, if I can just try to summarize, the concerns that we have is that we see there are some choices here, and that this is sort of a historic time as we look at the welfare system. And we can either have these continuing regulations where we spend an extraordinary amount of money employing people that read these things and figure them out and fill out forms, and you spend an extraordinary amount of money with people who write these kinds of regulations and then read what we write, none of which gets any child any better off, any parent more able to support their child, or moves anybody to a better situation.

What we are concerned about is that when we talk seriously about State flexibility, we do that with some real understanding of the programs. We do that with some real understanding of the people involved.

Our welfare population is not all the same kind of folks. People turn to welfare for a variety of things. You have women who were never married. You have women who have been abandoned. You have people who have suffered domestic violence. You have circumstances that really are beyond people's control.

My mother grew up in Youngstown, Ohio, which for generations was a thriving community. People had good jobs in the steel mills. Then in the early 1980's, the auto industry went through terrible circumstance. There is now no functioning steel mill in Youngstown, Ohio.

There are families who, for a couple of generations, relied on those steel mills for their livelihood and could have good jobs without college education, sometimes without even a high school education, and could support their families.

Those kind of folks need our help, as well, when we are looking at a welfare reform measure. And so when we in the National Conference have looked at questions about block grants, consolidation, and those kind of things, we are concerned that it be done in a way that the financial support that flows through the States to the people in need is able to be there, responding to the needs.

We are interested in being involved in a conversation with you on a bipartisan basis, lawmaker to lawmaker. Some of you have been through the legislative system in your States and you know that as legislators we have a sort of different take on things.

We end up probably more concerned about what happens with the money and how does that track because we are most intimately involved in the budget negotiation. We want to see a way clear to making sure that we preserve some of the good features that there are from the entitlement programs, some of the features that make certain that when there is a recession, there is a way for us to continue to support families who have played by the rules and been working all along, and that we don't get ourselves in a circumstance where we have used up all the money and we can't support those families. So we are in some ways very excited about the conversation that is going on because we have been so anxious for so long to have comprehensive flexibility.

Instead of being judged by how well we fill out these forms, let us be judged by whether children are moved out of poverty. Let's figure out how to do that, but let's do it carefully and cautiously, and I know that you have really decided to do this in a way that looks at it as carefully as you can.

I really appreciate that opportunity to start this conversation and I guess I would just simply offer to you the National Conference as a resource. We can bring to you people who have been in States that have done experiments.

You want a big State, a small State, a Republican, Democrat, all kinds of folks. We can tell you people who have been working in that and we are really looking forward to the opportunity to work with you.

Why don't you ask me what you want to know?

Chairman ROTH. Well, thank you, Ms. Campbell. It is a pleasure to have you here.

What I would like to do is, basically, ask you the three questions I asked your namesake. One is whether you or your organization have any feeling about a preference of going the route of grants or making waivers more readily available for a number of programs. As I mentioned earlier, waivers are provided for in the basic welfare program, whereas they are less available under food stamps and there really is no waiver provision in the housing assistance.

Do you think that we are better off going the waiver route, or would you prefer the block grant?

Ms. CAMPBELL. Mr. Chairman, I think there are options in between those. One of the things that we have suggested is that for those kinds of experiments that are being done by several States now—there are some 33 States that now have waivers in the Aid to Families with Dependent Children area.

What we would like to see is give us more options in our State plan and so that we don't have to continually apply for a waiver

to do something that maybe another State has already done and it shows that it works. Let us make those decisions based on our own resources, our own understanding of our community.

The other concern we have about waivers, which I talked some about with Senator Lieberman when he was here, is that we want to make certain that the waivers are done with the legislatures being involved.

The waiver negotiations right now are Executive Branch to Executive Branch, from the Washington Executive Branch to the Columbus, Bloomington—insert the name of your State capital.

Chairman ROTH. Yes.

Ms. CAMPBELL. If the legislature has not been involved initially in those waiver creations and there are major changes to State law, what can happen is that even after a long series of waiver negotiations, the program may never go forward and that has actually happened.

I talked while you were out voting about the Learning, Earning, and Parenting Program, which was created in State law in Ohio in the budget, and then when the waiver was granted, they could actually implement the program.

There are some concerns that legislatures uniquely have in the waiver process. Partly, that is because what happens when there is a waiver where there is some controversy attached, the legislature becomes the public forum. There is not a public hearing process in a waiver negotiation between the two administrations. It is only when it comes time to change the State law.

We are concerned as we look at the block grant concept, which we are interested in pursuing—we have some concerns about making sure that there really is flexibility within the block grant.

It won't work to sort of leave all these rules that generate these books in place and then say, here is a block grant, because it is not going to really give you any more flexibility.

That is one concern. The other concern is how do we deal with circumstances that arise from something like a recession, where all of a sudden we have a lot more people in need than we have had in the past?

There is some history with block grants that the intention of the block grant to grow with need is perhaps there, but the actual resources are not there. The social service block grant is an example of that.

In 14 years, we have had one increase in the social service block grant, while the cost of inflation has gone up dramatically over that period of time.

We would be interested in participating fully in the discussion. We don't want to dismiss the concept of block grants out of hand. We also don't want to lose some of the important features that have been there as a result of the entitlement programs.

Chairman ROTH. I would agree that it is critically important that the State legislatures be brought into an active discussion as we proceed along the route of reform.

Because of the lateness of the hour, we may have further questions which we would submit to you in writing.

Ms. CAMPBELL. I would be happy to have them.

Chairman ROTH. I want to express my appreciation for your being here today, and I find your testimony very helpful.

Ms. CAMPBELL. Thank you, Mr. Chairman. Thank you for the opportunity.

Chairman ROTH. Thank you, Ms. Campbell.

We will next call up the panel of the Hon. Mary Jo Bane, Assistant Secretary for Children and Families of the U.S. Department of Health and Human Services; William Ludwig, the Administrator, Food and Consumer Service of the U.S. Department of Agriculture; and Michael Stegman, Assistant Secretary for Policy Development and Research, U.S. Department of Housing and Urban Development.

It is a great pleasure to welcome each and every one of you. Because of the lateness of the hour, we would ask you to summarize your statements. Your full statements, of course, will be included as if read.

Ms. Bane, would you care to start?

TESTIMONY OF MARY JO BANE,¹ ASSISTANT SECRETARY FOR CHILDREN AND FAMILIES, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Ms. BANE. Thank you, Mr. Chairman, I am delighted to be here. I am the Assistant Secretary for Children and Families in the Department of Health and Human Services. My agency has responsibility for administering the largest welfare programs, AFDC, the Child Support Enforcement Program, and a number of the other programs that protect this country's needy families and children. Our agency is also responsible for granting, or not granting, waivers.

I do appreciate the opportunity to come before you today, and I will try to summarize my testimony very briefly that I have submitted for the record.

As you know, Mr. Chairman, the President submitted a comprehensive welfare reform proposal last year that addresses what we believe are serious flaws in the current welfare system. The administration's approach emphasizes work, responsibility, and reaching the next generation. We are committed, as the President indicated again last night, to working with this Congress in a bipartisan spirit to pass bold welfare reform legislation.

In drafting our reform proposal, we tried hard to identify and correct those parts of the system that undermined work and responsibility. We focused a lot of attention on why the existing welfare system is not more successful in promoting work and responsibility.

We observed that, in spite of the Family Support Act, the welfare system is not nearly tough enough about insisting that recipients who are able to work do so, or that recipients who need to prepare themselves to go to work quickly.

The welfare system isn't doing nearly enough to ensure that both parents support their children, and it is not providing real opportunities and challenges to the next generation.

¹ The prepared statement of Ms. Bane appears on page 162.

Mr. Chairman, let me also assure you that this administration believes strongly in State flexibility. As a former State welfare commissioner in the State of New York, I am well aware of the need and the ability of States to respond creatively to their unique situations and reform opportunities. We are also very sympathetic to State concerns about onerous and inappropriate Federal regulations.

The administration's welfare reform proposal, in fact, greatly enhanced State flexibility with respect to many of the AFDC rules that most affect work and families, and it also gave States new flexibility with respect to how they administer their education, training, and work activities for welfare recipients.

In addition, because of our commitment to State flexibility and innovation, we have worked with States using the Section 1115 waiver authority to test new approaches to waiver, like the Ohio LEAP program that was described by several witnesses.

Under this process, we have approved 24 State demonstrations in 23 States that enable States to experiment with new ways of promoting parental responsibility, making work pay, and helping families become self-sufficient.

As we move forward to consider comprehensive reforms, there are several fundamental questions that are raised about the design of this Nation's welfare system. We believe that several key goals should govern our effort to redesign the welfare system and ensure greater State flexibility: Achieving the national reform objectives of work, responsibility, and accountability; ensuring stability in funding over time and cushioning States and individuals against economic cycles; and finally, preserving the basic protections for needy Americans, especially children.

We also obviously need to ensure accountability for the correct expenditure of Federal funds.

A number of indicators of State capacity and performance show considerable variation in the extent to which they have moved in the directions envisioned under the Family Support Act. These variations suggest that if we truly want comprehensive and wide spread welfare reform, we must balance the needs of increased State flexibility with those of a national framework of requirements and performance standards.

A national welfare program must also enable States to deliver the help needed by families who fall on hard times and who play by the rules. The system should not leave the States and their taxpayers with the full responsibility for addressing the increased demands on the welfare system in times of economic or demographic change.

Under the current system, as State costs increase due to downturns in the national State economic cycle or if a State's needy population increases for other reasons, more Federal funds automatically become available. Block grants that are set to reflect current spending can create unpredictable and highly variable impacts due to inflation, population migrations, and changing economic and demographic conditions.

The design of a block grant or the allocation of a capped entitlement inevitably requires a formula. Different formulas product different winners and losers, but disparities do result.

My full testimony contains some information on a simulation that we did that shows what could have happened to States had a block grant proposal been in place between the years 1988 and 1993, and all the details are in my fuller statement.

But it suggests that if States had chosen the block grant option at that time, States in the aggregate would have received 26 percent less in 1993 than they actually spent, with a lot of variation among the States. Delaware, for example, would have received 35 percent less.

As we reform welfare to focus on work, responsibility, and reducing dependency, we must not forget that these programs provide a lifeline for our neediest families. As a Nation, we have accepted responsibility for ensuring these families have some help in meeting their basic needs.

We don't believe that the issues we face cannot or should not be solved. Like Members of Congress, we in the administration believe that the welfare system needs to be changed in fundamental ways.

The administration's welfare reform proposal takes bold steps to refocus the system on the national objectives of work and responsibility, while at the same time, increasing State flexibility and protecting America's neediest families. Before adopting any specific approach, it is very important that we carefully assess the likely impact of that approach.

We very much look forward to working with this Congress and with others in exploring these alternatives. We offer our full cooperation in providing any information that can be helpful.

I will be happy to answer questions that you have. Thank you. Chairman ROTH. Thank you.

Mr. Ludwig.

TESTIMONY OF WILLIAM LUDWIG,¹ ADMINISTRATOR OF THE FOOD AND CONSUMER SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. LUDWIG. Thank you, Mr. Chairman. I will try and be as brief as possible.

This administration believes there are two critical functions that our Nation's food assistance programs must serve. First, our programs must ensure that vulnerable Americans do not go hungry. The role of Government in helping needy people feed themselves is fundamental and primary.

A second function of our nutrition assistance programs, which are different from cash assistance programs, is to fulfill a unique national health responsibility they promote to protect the basic health and well-being of needy Americans. The scientific link between diet and health is clear. About 300,000 deaths each year are linked to diet activities.

Since their inception, our national nutrition programs have been results-oriented, designed for the express goal of improving families' access to nutrition security and better diet. Since the nationwide expansion of the Food Stamp Program and the introduction of the WIC Program, the gap between the diets of low-income and other families has narrowed.

¹ The prepared statement of Mr. Ludwig appears on page 172.

The incidence of growth stunting among pre-school children has decreased by 65 percent. The incidence of low birth weight has fallen from 8.3 percent to 7 percent. The prevalence of anemia among low-income pre-school children has dropped at least 5 percent over the last 10 years.

In establishing the Food Stamp Program in 1964, and again the major reform of 1977, Congress identified improved levels of nutrition among low-income households as a priority. When the program began, it meant more food on the table for 367,000 Americans. Today, the Food Stamp Program is vital to the health and well-being of over 11 million households, including children, the elderly, the working single parents, and the disabled.

USDA's nutrition assistance programs have achieved some impressive results. We are committed to making them work even better. We must get back to the basics of simplifying rules, increasing State flexibility, cutting red tape, ensuring program integrity, and providing a strong nutrition message.

At USDA, we have been working for 2 years to achieve these goals and are proud of what has been achieved so far during this administration, including implementation of the Mickey Leland Childhood Hunger Relief Act, the rapid rollout of electronic benefit transfers for the delivery of food stamps, working with States as partners to ensure payment accuracy, and efforts to eliminate fraud and waste.

All of these changes work toward making our programs more efficient, more effective, so that the maximum results can be achieved with available resources.

There is much more to be done. The Department is eager to work with you and further the goals of the health and diets of Americans. As we design and develop our proposals for reform, we will be guided by six core principles.

First, nutrition security. It is a core mission of USDA's food assistance programs to protect the health and nutritional well-being of these vulnerable populations, now and into the next century.

Second, modernizing benefit delivery. We will improve customer service and reduce program abuse through technologies like Electronic Benefit Transfer.

Third, State flexibility. We will work with States to design, establish, and administer procedures that meet their needs.

Fourth, economic responsiveness. Our programs must assure adequate levels of nutrition assistance, regardless of economic conditions.

Fifth, personal responsibility. Our programs will promote personal independence and responsibility.

And last, six, program integrity. We will work aggressively to eliminate the problems of fraud and abuse that threaten our programs' image and have eroded the public trust.

As you have heard this morning from Ms. Bane, there are a number of proposals under serious consideration by the 104th Congress to combine and return federally-administered programs to the States. Ms. Bane has discussed how these proposals would affect welfare programs.

I would like to comment briefly on how the proposals could affect a low-income family's access to nutrition and health.

As you know, USDA's nutrition programs serve a much broader population than Aid to Families with Dependent Children and predominately serve children. The elderly and disabled and many others who are unable to provide for themselves are served by our programs. In fact, we estimate that 82 percent of all households receiving food stamps contain either a child, an elderly person, or a disabled person.

On Tuesday, January 17, USDA released an analysis of the nutrition, health, and economic consequences of block grants for Federal food assistance programs. Our report clearly shows that these proposals, if adopted, will cut the safety net protecting the nutritional well-being of millions of low-income Americans.

Under the proposal, Federal funding for food and nutrition assistance would fall by more than \$5 billion in Fiscal Year 1996 and \$31 billion over 5 years. These cuts could terminate the benefits for millions of needy Americans.

And they threaten the future. Currently, food stamps and child nutrition programs automatically expand during tough economic times. But under the proposal, this automatic adjustor would vanish; food programs would not be able to respond to recessions and States might be forced to reduce benefits and serve fewer people.

The effect of the proposal would be felt by more than those who participate in the nutrition programs. By weakening the link between benefits and food purchases, the proposed block grant would lower retail food sales, reduce farm income, and increase unemployment, particularly in the food and agriculture industry. In addition, the proposal would eliminate a number of—

Chairman ROTH. Because of the lateness, if you could summarize?

Mr. LUDWIG. I will just call that quits. I summarized the first 10 pages. Thank you.

Chairman ROTH. Mr. Stegman.

TESTIMONY OF MICHAEL A. STEGMAN,¹ ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Mr. STEGMAN. Thank you, Mr. Chairman. I will summarize my testimony.

There are important differences between housing assistance and other means-tested benefit programs. First, housing assistance is not an entitlement. Housing assistance is provided only to the number of households who can be assisted with the amounts Congress appropriates each year. As a result, only about 30 percent of households currently eligible for housing assistance receive any Federal housing benefits.

In addition, a bedrock principle of housing aid is to ensure that those families who do receive assistance can live in decent quality housing at affordable rents. In contrast to families that only receive AFDC, recipients of housing assistance are much more likely to occupy housing free of physical defects, to live in less overcrowded conditions, and are somewhat more likely to live in neighborhoods that they consider to be adequate.

¹ The prepared statement of Mr. Stegman appears on page 180.

My testimony, Mr. Chairman, briefly touches on the five issues that you identified. One is housing program eligibility rules and their consequences for welfare reform. Second is HUD's experience in using housing assistance as a platform for self-sufficiency; third, HUD's current limited flexibility with regard to waiver authority; fourth, potential consequences of welfare reform for HUD's budget situation; and finally, a few comments about our reinvention proposals and how this might relate to welfare reform.

And what I would like to do is just briefly touch on each of them.

Elderly and disabled households account, Mr. Chairman, for up to half of all HUD-assisted households. More than a third of HUD-assisted households are 65 or over, and another 10 to 15 percent are permanently disabled, so that because of the diverse household mix that HUD serves, it will be difficult to enact sweeping reforms to encourage work or alter behavior in other ways.

The most important point I think I can make about non-elderly households, Mr. Chairman, is that currently most non-elderly households receiving housing assistance already have a full- or part-time worker.

Efforts to reform welfare have focused on moving households, of course, from welfare dependency to jobs and self-sufficiency. But despite very strong work disincentives in our own housing programs that we are trying to deal with, 55 percent of non-elderly households receiving housing assistance report some earnings and 90 percent of those households report their earnings make up more than half of their incomes.

We have had some experience with efforts to coordinate housing and social services, and generally the results are positive, but mixed. In the last decade, demonstration programs have produced some encouraging signs that the combination of housing assistance, closely coordinated with employment and training programs, can help put recipients on a path; I underscore path toward economic independence.

There were a series of demonstrations in the 1980's. The results of one of them suggests that housing assistance recipients, when they receive intensive employment and training services, were significantly more likely to be employed and have earnings higher than the minimum wage than those receiving housing assistance alone.

In a mobility-oriented demonstration program in Chicago, it was shown that public housing residents who move out of the city into the suburbs were 25 percent more likely than city movers to have a job after their move, to have modestly higher incomes due primarily to working more hours rather higher wages, and their children had much lower school dropout rates than comparable households who moved to city neighborhoods.

On the waiver issue, I think you may be aware that the HUD Secretary current has regulatory waiver authority, but no statutory waiver authority. And our housing bill that was introduced in the Congress last year, that was not enacted, would have given the Secretary substantial waiver authority to respond to a number of requests from States and localities for the kinds of demonstrations and flexibility that you are talking about today.

Fourth, the impact on HUD's budget of welfare reform. I just want to emphasize that changes in the welfare system could produce unintended effects on our budget. HUD subsidy levels generally are calculated to make up the difference between 30 percent of household income and the actual rent, and if welfare reform causes tenant incomes to decline through sanctions or other means, current HUD program rules would automatically restore 30 percent of the income lost through housing subsidies, which HUD can't afford. Because we are not an entitlement, we can only make up those subsidies that the Congress appropriates funds for.

The administration's welfare reform proposal included provisions to hold HUD's budget harmless from declines in income due to welfare sanctions. If a tenant is sanctioned under the administration's welfare reform proposal, the tenant would get no larger housing benefit from HUD.

Finally, just a comment on our reinvention. Secretary Cisneros, as you know, has proposed a bold blueprint for changing HUD to meet America's housing priorities. This change is consistent with the general direction of providing increased flexibility for welfare program rules to the States.

We are proposing to convert over a transition period to a system of housing certificates for families and individuals in which all current public housing, assisted housing, and tenant-based programs would be combined into a single housing assistance program administered by States and local governments.

Decisionmakers at the local and State levels should be given broad flexibility to design coordinated rental assistance programs and eligibility requirements consistent with national housing objectives that meet their needs and their goals. We envision, for example, that a locality might target a portion of its housing assistance on AFDC recipients who are making the transition to work, to work-ready families to enable them to move to areas of greater economic opportunity, and to working poor families who need rental assistance to remain self-sufficient.

The specifics of this new housing assistance program obviously should be developed to be consistent with welfare reform.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Mr. Stegman. Can you, Mr. Stegman, provide us with the average yearly or monthly subsidy value for a unit of assisted housing?

Mr. STEGMAN. Yes, I can, Mr. Chairman. The average—if we use tenant-based rental assistance, the average rent for a two-bedroom unit, what we call the fair market rent in the country, is about \$560 a month, I believe.

Of that, the average payment by the tenant, I believe, is around \$167 a month, the difference being the subsidy. I have information with me on the average rent in four cities that came from a paper that we are doing in Columbus, Ohio; Kansas City, Missouri; Seattle; and Denver.

To give you an example, across those four cities, we are talking about a two-bedroom unit. I have it for annual. It is about \$5,400 a year, the rent in Columbus, and it goes to a high in Seattle of \$6,500, or roughly \$6,500 a year, out of which would come the tenant contribution.

Chairman ROTH. Earlier, we had testimony from GAO that the non-cash value of food stamps, school lunch, and housing for a family of three was \$366. Doesn't this figure seem somewhat low?

Mr. STEGMAN. What did that include, Mr. Chairman—I'm sorry—the \$355?

Chairman ROTH. It includes food stamps, school lunch, and housing.

Mr. STEGMAN. Not knowing how that number was derived, it does. We have a precise figure for tenant-based rental assistance because, indeed, we are sending checks to the landlord on a market-determined rent.

If they are talking about the public housing inventory where there is no direct market-value based subsidy, that value would have to be imputed some way and perhaps that is how they did it, and underestimating—I just don't see how it can, even with an imputed figure, include rental assistance unless they are spreading the average rental assistance to all 4.8 million households who receive housing—no, that wouldn't do it.

Only 30 percent of the income-eligible population receives housing assistance. If they are spreading it among all 4.8 million AFDC families or something, you would get a lot lower number. I am just not sure of the source of that number.

Chairman ROTH. That would sort of bias the figures, it seems.

Mr. STEGMAN. Yes.

Chairman ROTH. You say that just 30 percent of those eligible?

Mr. STEGMAN. Roughly 30 percent of the income-eligible population with severe housing needs are currently receiving housing assistance.

Chairman ROTH. Mr. Ludwig, do you have any comments?

Mr. LUDWIG. Yes. I also—not knowing how that number was computed, it makes it kind of hard to respond accurately. I can say that the average meal cost for a free meal in school lunch per child is \$1.72 per meal. The average benefit for a food stamp family who is not working is about \$386 a month for a family of four. So I really don't understand how they come up with the numbers, without looking at their exact formula.

Chairman ROTH. Well, we are keeping the record open and we are going to try to—I don't understand the figures, either, so we will have some additional questions after we have a chance to discuss it further with the General Accounting Office.

Ms. Bane, my time is running out, but I would like to ask you, what is your assessment of the current waiver system? Do you believe that State experimentation is contributing to the body of knowledge on what works in welfare?

Do you think it would be advisable to allow waivers without requiring evaluation, waivers for the purpose of providing State flexibility?

Ms. BANE. I think I would like to distinguish, Mr. Chairman, between what we can and do learn through waivers and what kinds of things we might think about taking outside the waiver process and simply making a State option.

One of the favorite waiver requests that has come to us from States is a request to change the amount of earnings that welfare families can keep in order to provide an incentive to work. We have

given something like 17 waivers of that requirement. The administration's welfare reform proposal proposes making that a State option, since it does seem like something that States ought to be able to do without having to go through the waiver process.

On the other hand, we are learning an enormous amount from the rigorous evaluations that are being done of the more comprehensive welfare reform demonstrations. I mean, for example, the data that was presented to you earlier on LEAP comes from a comprehensive evaluation, a good evaluation, that we are learning from. And I think that as long as the States are doing quite dramatic attempts at welfare reform, we would be well served by continuing the requirements for rigorous evaluations and therefore doing that under the demonstration authority.

Chairman ROTH. Senator Lieberman.

Senator LIEBERMAN. Thank you, Mr. Chairman, and thank you all for your excellent testimony.

Ms. Bane, am I to understand that the administration's welfare reform program will be essentially what it was last year?

Ms. BANE. The administration submitted a bill last year.

Senator LIEBERMAN. Right.

Ms. BANE. The President is committed to those principles. The President, though, is also committed to working with the Congress in a bipartisan way to try to shape a welfare reform proposal.

Senator LIEBERMAN. So that the probability is that there will not be another series of proposals by the President, but building on the foundation that was laid last year, there will be cooperation with Congress to see if we can develop a consensus approach here?

Ms. BANE. That is the intent.

Senator LIEBERMAN. I appreciate that, and I think that is the right way to go because there certainly is a very broadly shaped consensus here that we ought to do something to change the system.

I was interested in the comment you made about the requirement, the need for national requirements. I don't know whether you were here when I talked about the bill I have introduced, but I would like to see if we can figure out what we have, some comfort level that works now, and impose it nationally, and then stimulate a very broad array of tests at the State level, 3, 4, or 5 States, or whatever, and for each to see whether those ideas work, and if they do, apply them nationally.

And I must say, the national standards that I was thinking of were floors. In other words, I have been worried about what impact some of these proposals, even the ones that I think ought to be tested that are, as somebody said earlier, draconian, would have on kids.

But you make, I think, a very good point, which is that the standards also ought to be ceilings in some way, which is to say that there are some States that may not get into the process of welfare reform as aggressively as our Nation really wants them to and as they need to.

Why would that be so? I mean, in your experience, what would inhibit a State from wanting to be involved in welfare reform?

Ms. BANE. There are a number of things that could possibly lead to that. One is lack of State capacity in some areas, as I think some of the earlier witnesses testified. Doing welfare reform is hard.

Senator LIEBERMAN. Right.

Ms. BANE. I can tell you that as a former State commissioner. I mean, it is a lot of work.

In fact, to do it in a way that helps people move into jobs, it takes resources as well as hard work, and I think that States vary in their willingness and their capacity to do that.

I think, if I might, Senator Lieberman—

Senator LIEBERMAN. Sure.

Ms. BANE [continuing]. That we might distinguish the values and the principles that we share and that we believe all States should try to embody in their welfare reform activities from the means that they go about doing them. And we, too, believe that there are lots of different ways to run work programs; there are lots of different ways to provide the kinds of supports that welfare recipients need, but that we ought, as a Nation, to be committed to work, to parental responsibility, and to providing a floor for children.

Senator LIEBERMAN. That is a good articulation. Obviously, then, it probably requires somebody in Washington to make sure that the specific programs that the States are trying do not go too far from those base values. Is that your—

Ms. BANE. I would think so.

Senator LIEBERMAN. Yes. As I understand the current waiver system, the proposal for a waiver from a State for a reform idea has to be budget-neutral, correct?

Ms. BANE. That is correct.

Senator LIEBERMAN. Is that practical? Is that reasonable? In other words, isn't it true that in some cases if we are really going to try some of these ideas, including some of those that have been described as most draconian—you don't have to call them orphanages, but that seems to be the term of art. As they have been saying in my office, you could call them boarding schools and make them sound more attractive. But isn't it going to cost more to try something like that than is probably available in the existing welfare allocations?

Ms. BANE. Our approach to waivers has, in fact, been to require that they be budget-neutral, but that they be budget-neutral over the life of the project, and that has varied from a 3-year period, to a 7-year period, to even in one case an 11-year period.

Senator LIEBERMAN. So it might allow time to realize some of the savings.

Ms. BANE. Exactly, and what that allows is time for the States to do some investment at the front end and reap savings at the back end.

Senator LIEBERMAN. Right.

Ms. BANE. And our sense is that the number of States who have been willing to do that, as long as we do look at budget neutrality over the life of the project, rather than year-by-year which would be a big problem for States, that States are, in fact, able to do that.

Senator LIEBERMAN. That is good and a final question, before the red light comes on; brief.

The Vice President's National Performance Review has set up a very impressive series of—I think he calls them Customer Service Standards; that is, times by which the Federal Government has to do certain things.

I have forgotten. Is there a time by which you are supposed to make a judgment on a waiver application?

Ms. BANE. The Executive Order of the President asks us to make a judgment on a waiver within 120 days.

Senator LIEBERMAN. How are you doing on that?

Ms. BANE. Not as well as I would like.

Senator LIEBERMAN. Good luck.

Ms. BANE. But not bad.

Senator LIEBERMAN. OK. Thank you. Thanks, Mr. Chairman.

Chairman ROTH. If you desire more time?

Senator LIEBERMAN. I am fine, thank you.

Chairman ROTH. I just have three or four more questions I would like to ask.

Here we have 3 programs that directly impact welfare housed in different agencies. One of the things we are looking for is how to reduce overhead, administrative expenses. Some of the States have consolidated this into one agency, a one-stop approach.

Is this doable? Should we try and do it? Can we both provide better service by making all these programs administered from one organization?

Can we provide better service? As I say, can we make better savings? Ms. Bane.

Ms. BANE. I think both of my colleagues will want to answer that question, as well.

As they pointed out, the three programs do serve different functions and different populations.

Chairman ROTH. What about to the extent they are serving this one constituency?

Ms. BANE. To the extent that they are serving the welfare population, I think that we would all agree that cooperation and coordination at the Federal level and, more importantly, at the State and local level is very important.

One of the big frustrations that the States have with regard to the AFDC program and the Food Stamp Program is that some of the eligibility rules are different, and different in ways which are hard to explain.

We are both committed, through the welfare reform legislation and through the efforts that the Department of Agriculture is making, to make those better coordinated so the States can serve their clients in a better way.

As Mr. Stegman pointed out, we are also committed to working together to make sure that the housing programs are supportive of efforts to help recipients move from welfare to work. So I think we can do a much better job on coordination, even with the framework that we have.

Chairman ROTH. Mr. Ludwig.

Mr. LUDWIG. I, too, would agree with what Ms. Bane has said.

Traditionally, food assistance programs have not been viewed as welfare programs. They have been viewed as nutrition, health-type

programs, and I think that that is our mission and that should stay our mission.

There is a certain population that we do share, between AFDC and food stamps and the other food assistance programs, but there are other populations out there, to some degree, that we do not share. If you look at the profile of the Food Stamp Program, out of 27 million individuals, 14 million of those are children, 2 million of those are elderly, 1 million of those are disabled. Many of those we do not share with AFDC, many of them we do.

I think the underlying character is that the missions of our programs are so very different that it is in the client's interest, as well as the State's interest, to keep those separate.

We have a very close working relationship with HHS. We coordinate waivers together with HHS. It seems to be doing very well. There are some areas that we could strive, and are striving, to do better in.

Chairman ROTH. Mr. Stegman.

Mr. STEGMAN. Thank you, Mr. Chairman. Just to give you an order of magnitude, of the 4.8 million households who receive housing assistance, we estimate that 1.1 million receive both housing assistance and Aid to Families with Dependent Children. That is about 23 percent of all AFDC households, and about 28 percent of all housing assistance recipients, so there is a substantial overlap.

We are, first, doing a great deal to consolidate existing housing assistance programs. The rules, regulations, asset limitations, the whole range of requirements for our programs vary over the programs and we are trying to make it easier for localities and States by consolidating those programs.

I do think that a way can be, and should be, found to increase compatibility in terms of definitions of income and asset limits and those kinds of things and it would be helpful, certainly, to all of us.

Chairman ROTH. Last night, the President spoke about reducing the large top-heavy bureaucracies and the problem of centralizing things in Washington, bringing things closer to the people, the ones we are trying to serve.

Yet, when he talked about welfare reform, he made no mention of increasing flexibility to the States or of block grants. Does this mean, Ms. Bane, that to the administration, as far as they are concerned, block grants are off limits?

Ms. BANE. The President genuinely is committed to working with Congress in a bipartisan way to deal with the welfare reform issue. The President, I think, articulated a set of principles and commitments, a commitment to work, to a transitional welfare system, and to parental responsibility that the administration believes are national values that we ought to put in place in that way. And as I said, certainly in the administration's welfare reform proposals, we are proposing a good deal of State flexibility.

I did, in my testimony, and we have on other occasions, raised serious issues that block grants raise. What does happen if there is a spending cap and you run out of money? What does happen when you try to allocate among States? What does happen to the disparities and the safety net?

So we think there are serious questions, but we are, in fact, committed to working with you to see what alternative answers there are and how we can solve this problem that we all want to deal with.

Chairman ROTH. If I understand you correctly, you see problems, but it is not off the table.

Let me ask you, Mr. Ludwig, as you know, AFDC has broad waiver authority compared with that of the food stamps. Do you believe it would be appropriate for food stamps to have broad waiver authority, much like they have in AFDC?

Mr. LUDWIG. Yes, sir. We have broad authority as far as our regulations go in applying waivers there, but we do not have broad authority as far as it goes with statutes. Specifically, the law that you are talking about basically says that we cannot reduce the benefits of an individual. This prohibits us from doing many of the things that we need to do to provide the States the flexibility that they would like.

Chairman ROTH. So you think it would be appropriate to broaden your authority?

Mr. LUDWIG. Yes, sir.

Chairman ROTH. Mr. Stegman.

Mr. STEGMAN. Mr. Chairman, because we are not an entitlement, waivers would have to be paid for and paid for up front. We don't have the luxury of giving housing authorities or States and localities the opportunity to be revenue neutral over a 5- to 7-year period.

If we were to extend work incentives to existing public housing households or to households who are in training for work, that would result in losses to the housing authority this year and we would have to make those up with higher operating subsidies, even though we do believe that over a 5- to 7-year period it would save money and it would really be beneficial to households.

So, we are in a very difficult position. Waivers would have to be financed as part of our budget if they have short-term revenue and outlay implications, so it is a difficult thing.

On the other hand, the Secretary would like very much to be able to respond positively to creative proposals that States and localities are willing to help support, if only the statutory rigidities could be relaxed and tested and evaluated.

Chairman ROTH. But would you want the authority to set aside a certain number of units or a certain percentage of benefits to AFDC families who are working? Would that be desirable as an incentive in working towards self-sufficiency?

Mr. STEGMAN. Well, there are, as I said, about a million recipients of AFDC and housing assistance, and certainly there are right now, underway, a variety of demonstrations that are occurring, some statutorily enacted, by the way, that would freeze food stamp eligibility, continued eligibility for Medicaid, and indeed, public housing rents, to encourage families to gain training and to work. But those are limited demonstrations that were enacted statutorily. We can't expand those and we would like very much to have greater flexibility to do that kind of experimentation.

Chairman ROTH. I guess what we are talking about is trying to make housing an incentive to work.

Mr. STEGMAN. Yes. I mean, we have had in the past demonstrations that reserved rental assistance certificates, housing subsidies, for families both receiving AFDC and others who were not, as an incentive to enter into some of these programs.

As I said in my testimony and I go into a little more detail, there were some promising results of those kinds of demonstrations, reserving housing assistance for families as motivation for and platforms for self-sufficiency, yes.

Chairman ROTH. Well, I have some further questions, but we will submit them in writing.

Thank you for your patience. I apologize for the lateness of the hours. It is a pleasure to hear you.

Our next witness will be Robert Rector of The Heritage Foundation.

We are pleased to have you here today. Your full statement will be included as read. Please proceed Mr. Rector.

TESTIMONY OF ROBERT RECTOR,¹ THE HERITAGE FOUNDATION

Mr. RECTOR. I am pleased to be here.

Mr. Chairman, when Lyndon Johnson launched the War on Poverty, he promised Americans that the War on Poverty was to be a short-term investment which would return its cost to the taxpayer many-fold. So what I would like to talk about today is simply to ask the questions, how much have we invested in the War on Poverty, and what has been the return for this investment?

First of all, we have to begin by what do we mean by the War on Poverty or welfare? By welfare, I mean means-tested programs which are available to low-income individuals or community-tested programs that are available only to low-income and economically distressed communities.

These programs include cash, food, housing, medical assistance, social services, education, and training. The fact of the matter is that there are now over 75 major Federal means-tested programs.

Federal spending with required State match on this program in 1993 amounted to \$324 billion, 5 percent of the gross national product. This is about \$3,500 for each taxpaying household that is contributing to these support programs.

It is very difficult to determine how many individuals receive benefits from these programs, but I believe my best estimate is that about 60 million people—discounting the overlap, 60 million people get assistance. It is about one-quarter of the population.

The growth in spending. We are today, after adjusting for inflation, spending nine times as much on means-tested welfare as a Nation as we were back in 1965 when Lyndon Johnson launched the War on Poverty.

If you simply look at cash, food, and housing, again adjusted for inflation, we are now spending seven times as much as when the War on Poverty began. As a percentage of GDP, welfare spending has risen from 1 percent in 1965 to 5 percent today. Overall, from 1965 to the present, we have spent \$5.3 trillion on these 75-plus programs.

¹ The prepared statement of Mr. Rector appears on page 189.

That, after adjusting for inflation, is greater than the cost of battling Germany and Japan in World War II, but in World War II, of course, we won. In the War on Poverty, poverty seems to have won.

Now, let's just ask, what are the dividends which the American taxpayer has gotten for this \$5.3 trillion investment? And I would just allude to this first chart here. The red figures on the chart represent combined welfare spending in constant dollars from 1929 to the present. The black line represents the official Federal poverty rate during that same period.

What you see is that, back in 1950, at the top of the chart, about one-third of the U.S. population was poor. You see a consistent rate of decline right down to about 1965. The poverty rate falls by one percentage point per year. During that entire period, welfare spending, on the red line, was extremely small, less than 1 percent of GNP.

However, in 1965, or the mid-1960's, the red spending starts to kick up, the War on Poverty begins, and at almost exactly the point where the War on Poverty begins, the poverty rate kinks over, the natural decline in poverty which was occurring comes to an end, and we have basically made no progress against poverty since the War on Poverty began. And that is the good news.

I have got one other chart here. That is the good news, because if you take these programs, the 75 programs, we took the CBO projections on the outlays for these programs in future years. We now are spending about \$350 billion. We factored in the required State match on the program which is shown in blue. Spending on these programs on base line, which has usually been too low, is going to rise from \$350 billion this year to over \$550 billion by 1999.

It is scheduled to rise by one entire percentage point of GDP, and by 1999, we will as a Nation be spending \$2 on welfare for every single dollar we spend on national defense.

Now, what can we do about this? I think that there are basically two alternative solutions. The first solution is to block-grant these programs and end their entitlement status.

I propose that we take the bulk of the non-medical means-tested programs, eliminate their entitlement status, turn them into one large non-medical means-tested block grant that would go to the States for poor people, and allow those block grants to grow at the rate of inflation.

I would also take the means-tested medical programs, convert them into a single medical block grant, and allow it to grow at the rate of medical inflation. That alone would save about \$150 billion off of base line in the next 5 years.

Another alternative—

Chairman ROTH. How much was that, again? Save how much?

Mr. RECTOR. Save \$150 billion over the next 5 years.

Another alternative would go even farther in the direction of federalism, and is what I would believe you could call true federalism. True federalism means that not only the States operate the programs, but the States raise the funds for the programs.

So alternatively, what we could look at doing would be to simply abolish the Federal means-tested programs, give the cost of those programs back to the taxpayer as an individual tax rebate. That

would amount to about \$4,200 for each joint-filing household in the United States and \$2,100 for each single filer in the United States.

The money would go directly back to the households and then the governors would take that portion of the rebate that they wish to spend on welfare and take it themselves and be accountable and responsible to the taxpayers for raising those funds. Governor Engler has actually spoken quite positively about this type of process.

I would simply say, in conclusion, that the welfare State is far larger than almost anyone imagines and the negative effects of welfare have been far more severe. Basically, the Government is caught in a process in which the bottom line on welfare is that welfare insidiously creates its own clientele. The more you spend on these programs, the more you erode work ethic, the more you promote illegitimacy, the more people in need of aid are generated. And that is why you can see those results on the first chart. The more we spent, the more people in need of aid seemed to emerge. We do truly need a really radical change and reform.

Chairman ROTH. Now, as I understand your figures, you attribute to Federal spending on welfare programs many programs other individuals do not include; for example, programs that are for the assistance of the elderly.

Mr. RECTOR. Yes.

Chairman ROTH. These are not programs where we are trying to get them off the program into the main stream.

Mr. RECTOR. Right.

Chairman ROTH. So that, in a sense, helps explain the difference in your figures, as I understand it, from some of the other figures that are presented.

Mr. RECTOR. Although I think that the contribution to the elderly is a minority within this. But, basically, in my mind, I think you need a simple definition of welfare, which is aid which is going exclusively to poor and low-income Americans. Some of that goes to elderly people, the bulk of it does not.

And I think it is also important to realize how much we are spending to assist a whole wide variety of low-income Americans, including the elderly, in order to get a sense of what the pot is and what is available and how much the taxpayers are being billed. It doesn't mean that every single one of those 75 programs is a failure, or that it would need to be changed.

But I think in terms of budgeting, it is very important to understand how much this Nation is contributing to the care of low-income Americans. I would also point out that that aggregate figure is very important because there is a kind of game that goes on here in Washington, which is called the "horror/slashing the safety net game."

For over 15 years, we have played a game where various groups take one of those 75 programs and show that perhaps it didn't grow at base line, or it might have actually been cut. And then they go out and issue a press release, more or less pretending that that is the welfare State, that program, and say, look, welfare spending hasn't grown.

Now, the other 74 programs can be growing at 8 percent per year, but you can consistently prove that Washington is miserly

and welfare spending is falling simply by talking about one program out of the mix, and we have done that for many, many years.

Chairman ROTH. As I understand, you have a list of the 72 programs.

Mr. RECTOR. They are in my written testimony.

Chairman ROTH. And do you have an evaluation of each of these programs? You say some may be working?

Mr. RECTOR. I think that, basically, programs for the elderly work because there is no moral hazard in them. People don't become elderly in order to get on SSI, OK?

The problem is those programs where there is what is classically called the moral hazard; that the condition for getting in the program is to have a child out of wedlock or not to be employed, which covers the bulk of them.

I think it is very important to note that all means-tested programs have inherently an anti-marriage effect, in this sense, that a means-tested program is only available if your household income falls below a certain level.

Well, what is the best way to have a low reported household income? It is to make sure there is not an employed husband in the household.

So all means-tested programs have a tendency to create an effect where a woman and a man, say, can live together or the man can have a job and the woman can be getting her welfare and they get a much higher income by presenting themselves to the Government as two separate households. The minute they tie the wedding knot and put a ring on their fingers, all of a sudden his income is counted toward her eligibility and they are going to lose most of their welfare benefits.

That is not restricted to AFDC and, in fact, applies to almost all of these programs. They all, also, have a clear anti-labor effect, which has been demonstrated over and over again.

In the Seattle-Denver income maintenance experiment, for example, we found that each additional \$1 of welfare benefits resulted in an 80 cents reduction in workforce participation and labor earnings.

Chairman ROTH. Since we have so many Federal programs directed towards the same or similar population, do you think it would be desirable to have a single point of oversight in the Executive Branch for public assistance programs at the operational level?

Mr. RECTOR. I think it clearly is. One of the things I have noticed is that basically nobody knows how many programs we have got, and the people at Ag Department don't understand what is going on with HHS and the housing people don't understand that. And when you go in to talk to housing advocates, they are talking about shortages of housing. They are completely unaware of all these other programs that aren't in their field. It is almost like they are wearing blinders, but the reality is that we have a holistic system.

There is no one in the United States, for example, that just gets AFDC. They are always going to get Medicaid. They are very likely to get food stamps. About a third of them are going to get housing, and so forth.

So, there is a huge overlap; when all these programs get down on the street level, they all collide with one another. But up here, we pretend as if they are separate things.

On AFDC, it is very simple for a woman—a woman can get as many as 12 different benefits. I think you ought to have an integrated oversight at the Federal level, and I also think it is important to integrate these funding streams and let the governors determine what to do with these funds.

The very last thing that the Federal Government can really do is dictate to a governor how much he should be spending on nutrition, how much on job training, and how much on housing. We should insist on certain principles, promoting self-sufficiency and marriage, but dictating funding levels between these different categories of spending is exactly the sort of thing that I think Washington can't do well, and that is why I think block-granting into one big block grant would be the best way to go.

Chairman ROTH. If you move in the direction of block grants, what strings would you attach? Can you give us some examples?

Mr. RECTOR. Yes. I think it would be very important to say that, for example, States have to have work requirements. Certain percentages of the caseload must be required to work.

I think it would be very important to put restrictions on providing direct cash subsidies to future unmarried women. If any State believes that the best thing it can do for children in that State is take a 16-year-old and say, when you have a child out of wedlock, we are going to send you a check in the mail, oh, please, let them do that, but don't use Federal money for that purpose. Let them use State money.

I think it is important to have requirements of paternity establishment. I think it is important to establish again a Federal principle that once a mother is on AFDC, if she has additional children while already enrolled in welfare, she doesn't get an increase in Federal benefits. Again, any State that believes they should give her an increase of benefits, do so with their own money.

Those are the types of requirements I think we need.

Chairman ROTH. Should there be a cap?

Mr. RECTOR. A cap on spending?

Chairman ROTH. Yes, on the funds made available under—

Mr. RECTOR. Yes. I think what we need to do is eliminate the entitlement status of these programs, combine them into one or more block grants, and allow that block grant to grow at roughly the rate of inflation. What you would be saying, then, is that sort of a sine quo non of reform is that you are not anticipating growth in caseloads; that the States, as success, are going to have to keep their caseloads at about the same level and we will give them enough money to make up for the increases in the rate of inflation.

If they can't control the growth of their caseloads, then they have to bear the extra cost themselves. So I would say that you would cap the rate of growth of the block grants on non-medical at about 3 percent per annum, about the rate of inflation, and on medical, you would cap it at around the rate of medical inflation.

Chairman ROTH. My last question, have you taken a look at or attempted to quantify the administrative savings that could be made by going the route of block grants?

Mr. RECTOR. I have not. It would obviously be considerable, and one of the ironies is that it would be more considerable down at the State level than it is up here.

There is a tremendous amount of State manpower. If you took each one of these programs, they come with a delightful set of about 150 pages of regulations. You saw some of those with an earlier witness. That was only two programs. So just take that for 75 and you are going pretty high up to the ceiling here.

Now, there has to be a couple specialists with graduate degrees sitting down in each State capital whose expertise is the interpretation of those regulations. So there would be a tremendous amount of savings, I am not sure just in dollar terms, but particularly in manpower terms, where you could begin to orient people not to understanding Federal regs, but in the task of designing programs that work down at the State level.

Chairman ROTH. You talked about States controlling the caseload. Do you have suggestions or ideas of how they would do that in times of economic recession?

Mr. RECTOR. In times of economic recession, the caseload is going to go up. What I would recommend that a State do with a block grant under those circumstances is have a rainy-day fund; that in good times they should be putting a little bit of money away, or as Governor Weld has said, when the recession comes, they simply stop building so many bridges and put money into welfare, and then when the recession goes, they go back to the bridges.

I think it is a mistake to assume that the reason the welfare State has overgrown is recessions. Well, in that chart, or either one of those two charts I had, welfare spending in constant dollars has gone up every single year since 1965, except for one. It is not recessions that is driving that; it is an endless expansion of caseload and an increase in the benefit values, and that is what we need to control.

Now, there are many ways to control that type of caseload growth, particularly work requirements. We have an example for one case, putting work requirements on a group called AFDC UP families, which are two-parent families on AFDC. Utah put a serious work requirement on those families way back in 1983. It achieved a 90-percent reduction in caseload in 1 year.

There are other examples like that. Dr. Meade, who is going to speak later—both he and I have been out in Wisconsin where many of the counties in Wisconsin, just by having work requirements, have achieved a 50- to 60-percent reduction in AFDC caseload over the last 5 years.

Unfortunately, most counties and most States don't have serious work programs of that sort, but we do know how to reduce caseload, if that is what you want to do.

Chairman ROTH. Well, thank you very much. I appreciate your being here, and I apologize for the lateness.

Mr. RECTOR. That is no problem.

Chairman ROTH. At this time, it is my pleasure to call forth Mark Greenberg, who is with the Center for Law and Social Policy. Mr. Greenberg, I am sure you have heard several times that your full statement will be included, and we look forward to hearing from you.

**TESTIMONY OF MARK GREENBERG,¹ SENIOR STAFF
ATTORNEY, CENTER FOR LAW AND SOCIAL POLICY**

Mr. GREENBERG. Thank you very much, Chairman Roth.

In much of the conversation this morning, there has been a recurring theme about the importance of flexibility. And, in part, I think——

Chairman ROTH. I am sorry. The importance of what?

Mr. GREENBERG. Of flexibility and of building additional flexibility into the ways in which States can operate their programs of assistance for low-income families.

I want to suggest a couple of points. One is that there are clearly areas where there is a need for more flexibility in the system. At the same time, the overall goal of Federal policy in any particular program is not State flexibility. The goal is to accomplish the goal of the program, whether it is addressing food needs, housing needs, or other needs. There are specific goals for a program, and ultimately, when we look at any individual program, the question always has to be: When does State flexibility help us move toward these goals? When does State flexibility possibly impede these goals? The answer will be different from program to program, depending upon a range of factors.

It will vary depending upon what the goal of the program is. It will vary based upon how much is known about what are appropriate solutions to the problem. It will vary based upon how much local conditions matter. Is this a problem where the fact that there is a high unemployment rate in one State and a low unemployment rate in another is a factor that matters? For some programs it would; for others it would not.

So when we look at proposals for reform, we should begin with the recognition that in thinking about State flexibility, the question always should be: Where does it help us move towards program goals?

There is now much discussion about the issues of block granting low-income entitlement programs, such as AFDC and food stamps. When we think about the question of would it be better for those programs to be reorganized as block grants rather than entitlements, one question is: How does that affect the extent of State flexibility? The other question is: What do you gain and what do you lose in furthering the program's overall goals?

On the flexibility issue, it is, I think, important to appreciate that it is very possible to have far more flexibility than exists in the current entitlement structure while still maintaining the principle of entitlement. At the same time, it is possible to have a block grant, which is not very flexible at all or which has very significant strings attached to the block grant.

In Mr. Rector's testimony just a few moments ago, he identified a set of strings that he would propose to attach to block grants, which many people would view as extremely controversial. It is entirely possible to emerge from the discussion or from the legislative process with a block grant which is not flexible, which does not provide additional State discretion. It is also possible to think about

¹ The prepared statement of Mr. Greenberg appears on page 207.

ways of making our entitlement structure one that is truly responsive to concerns about flexibility.

Much of the discussion this morning focused on the waiver process, particularly in the AFDC program. Part of the current difficulty is that over the last few years, States have been forced to go through the waiver process in a whole set of areas where there should not be any need to be requesting permission from the Federal Government to make a program change; that it should be an option available to States.

Let me give an example. One of the most common waiver States have asked for is a waiver of something called the 100-hour rule. This is a rule that says that in two-parent families that are receiving AFDC benefits, that if the principal earner begins working 100 hours a month, the family loses eligibility for aid.

Chairman ROTH. Would you say that again, please? I could not hear you.

Mr. GREENBERG. Yes. I am sorry. The 100-hour rule is a rule in the AFDC program that says that for two-parent families, if one parent begins working 100 hours a month, the family loses eligibility for aid, no matter what the family's income situation is. The mere fact of working 100 hours a month results in loss of eligibility for aid.

States that do not like that rule now have to go through a Federal waiver process to get it changed and have to both demonstrate cost-neutrality and go through an evaluation of the impact of the rule change.

In an instance like this, it is very hard to see why there is a Federal policy interest in restricting a State's ability to provide assistance to a two-parent family. This is an example of an area where it would make enormous amount of sense to build the flexibility into the statute rather than forcing States to go through the waiver process.

There are a number of other areas where States have been going through the waiver process because it is the only way to implement particular policy options, but where it would be entirely possible to rewrite the statute to allow that flexibility without necessitating a waiver.

Now, if it is not necessary to enact a block grant in order to attain additional flexibility, then the question becomes: What is gained and lost through a block grant structure?

What the Federal Government most clearly gains in the block grant structure is the control of spending, by saying at the beginning of the year that this is the amount that will be appropriated and that is all, and when it runs out, that is that.

What is lost in shifting from entitlement programs to block grants, is the basic principle that the Federal Government is a partner in the cost of these programs. And what is lost is the basic principle that, in times when more people need assistance, the Federal Government is a partner in providing that assistance. That if there is greater demand—one reason would be a recession, but that is only the most dramatic reason why there will be changes in the number of people in need of assistance. And in the block grant structure, what is lost in times when more people need help, is this Federal role in joining in the cost.

The other thing that is lost by going to a block grant structure is the ability of the Federal Government to be a partner in making the kinds of changes that need to be made in reforming the welfare system. One of the recurrent themes over the course of the morning is the need to move to a system which is much more employment-centered than the current system, one which involves significantly more emphasis on linking families with the labor market, on access to education programs, on ensuring that those who can go to work go to work, and having that emphasis as one that permeates the system.

In order to do that, unfortunately, the reality is that it does mean more resources than the current system. The reason for that is in the current system right now, when we look at the JOBS program, the basic program for work and training and work-related activities for AFDC families, across the country it involves about 13 percent of the families in the system.

There is child-care assistance for roughly, I estimate, about 3 to 4 percent of the families in the system. If we want the AFDC program to be a much more employment-centered program, that has got to be increased. And the difficulty when, for instance, a proposal comes forward to say let's take current money, put it all together in a block grant, and then let States decide what to do with it, the practical implication would be to say that if a State wants to expand its JOBS effort, the only way to do it is by cutting some of the families out of the system or cutting assistance to some of the families in the system.

In the same sense, there would be the risk that if in a time of recession more people needed help, there would be the danger of actually having to cut the JOBS program in order to respond to those in need.

So my concern as the discussion goes forward is that we need to distinguish those instances where flexibility is appropriate. We then need to recognize that the question of whether it is a block grant or an entitlement is not determined by the issue of flexibility; that there are other considerations around block grant versus entitlement, and that, in particular, by the loss of entitlement we lose the principle of the Federal Government as partner, and we lose the principle of a basic responsibility to say when individuals qualify under the terms of a program, they will receive the assistance that they qualify for.

Let me close just by commenting a little bit on the presentation immediately before me by Mr. Rector. I do think that it is entirely appropriate as we think about Federal spending to ask: What are the array of things that the Federal Government spends money on? And what are the areas in which the Federal Government spends money on low-income individuals? And are our priorities correct? Should more money go here or there or less money here or there?

The difficulty, though, is to agglomerate every one of those programs and call them welfare really does not help us in understanding the situation. In particular, of the \$324 billion referenced as welfare spending, \$132 billion of that is Medicaid. Of the Medicaid amount, two-thirds is for the elderly and disabled. By recent estimates, only about 16 percent of Medicaid money goes to the families in the AFDC system. It is entirely correct to say: Are we spend-

ing too much money on Medicaid? Should we make changes in how we treat nursing home care? But it is simply not helpful to say that when money goes up for expenditures on nursing home care, that is, does welfare spending help explain changes in out-of-wedlock births or work effort by the families in the welfare system?

It is important to focus, as did occur in the GAO testimony earlier today, on saying: What is the package that a family in the system receives? How much does that cost to Government? What does that provide to the individuals involved? And then what are the implications of that for thinking about welfare reform?

But to agglomerate many, many programs, things like nursing home care, the Pell Grant program, child care for working poor people, Head Start, Title I assistance to schools, and say all that is welfare spending, doesn't help in us being able to understand the issues that are really before us in talking about the reform of the system. Thank you.

Chairman ROTH. Last night the President talked about opportunity, I believe it was, an obligation. Today, I think in your testimony you talked about how the principle of entitlement does not mean that programs must provide aid without expecting obligations on the part of program beneficiaries.

Now, it seems to me that expecting obligations should extend across public assistance programs. Given the multi-agency administration that currently exists to administer these entitlement programs, how would you recommend ensuring and implementing this concept of obligation?

Mr. GREENBERG. I would first suggest that whether there is an obligation and what the obligation should be may be a different question for different programs. For example, the Food Stamp program includes working-age families with children; it also includes elderly and disabled individuals; it also includes a significant number of working poor.

It is, I think, a question as to whether one would say in all instance the appropriate thing is to extend obligation in return for assistance, because in some instances the goal of the program itself is simply to provide that assistance, perhaps not with a reciprocal obligation.

In instances where there is a reciprocal obligation that is involved, it is crucial to ensure that, at a very minimum, the obligations are not bumping up against each other. And one of the things which was referred to in the interagency panel is that, because laws have been passed at different times, we now do sometimes face the situation where if an individual does not comply with rules in the AFDC program, food stamp assistance may go up.

It is clearly important to assure that we do not have programs that are sending conflicting signals and that are undercutting one another's goals. But it is, I think, at the same time necessary to recognize that we would not, at least in my view, say a single uniform obligation should apply for all beneficiaries across all programs.

Chairman ROTH. Let me turn to a different area. Given the criteria that your testimony uses to evaluate the appropriateness of block grants, do you believe it would be helpful to block grant all day-care programs and have in each State just one set of rules and

eligibility requirements instead of the disjointed patchwork that we have today? Obviously, day-care programs are important in helping women with children make the transition to employment. But it would seem there might be a real benefit for recipients not having to worry about losing eligibility for day-care and having to see assistance from a different program.

Mr. GREENBERG. There is no question that what exists right now in the child-care area is a disjointed patchwork where there are a number of differences between the programs, sometimes for no good reason at all. There have been some efforts to try to address some of that in the last year or so, both in a proposed regulations package from HHS. Also, some of the legislation that was proposed last year would try to at least ensure that a State could have the option to apply the same rules across programs.

The real concern, though, with the notion of taking all the day-care programs and incorporating them into a single block grant, for instance, is that right now we have—the principal child-care programs, the child care and development block grant and the at-risk program, are not entitlements to individuals. They are funds to States for either working-poor child care or also potentially for education and training.

On the AFDC side, there has been an entitlement structure to make child care available for participants in education, training, and employment, and that functions both as an entitlement to individuals and to States. It is an open-ended Federal match to run that program.

The big concern, I think, as we look ahead in welfare reform, is that virtually anybody's proposal at this point will envision a need for increased use of day-care on the AFDC side. As I suggested, the best indications are right now that only about 3 or 4 percent of AFDC families are receiving child care assistance. If we move to universal participation, the day-care needs are clearly going to be much, much greater.

If AFDC day-care were in the same block grant with the working-poor day care, that would mean that as the participation and work requirements increased on the AFDC side, the only way to meet them would be by cutting back working-poor day-care. If AFDC day-care were placed into an AFDC block grant, it would mean that, as day-care costs increased, the only way that to meet them would be by cutting back the JOBS program or AFDC assistance to families.

So it seems to me that one issue is the need to harmonize the rules between programs, but I would be very concerned by anything which shut off the ability for a Federal partnership in the increased day-care costs that will likely be involved in welfare reform.

Chairman ROTH. Mr. Greenberg, we may well have additional questions, but because of the hour, we will submit them in writing.

Mr. GREENBERG. Thank you.

Chairman ROTH. Thank you for being here today.

Our final panel includes Dr. Lawrence Mead of Princeton University, and Dr. Judith Gueron, who is president of the Manpower Demonstration Research Corporation.

Again, I apologize to both of you for the very lateness of the house, and I appreciate your patience and very much look forward to hearing your testimony.

As I understand it, you have some success stories to talk about. That seems to be much needed at this stage. Please proceed.

TESTIMONY OF JUDITH M. GUERON,¹ PRESIDENT, MANPOWER DEMONSTRATION RESEARCH CORPORATION

Ms. GUERON. Thank you. I appreciate the opportunity of being here, and I commend your nobility for being here this long. My remarks focus on why welfare-to-work mandates have been the focus of reform for the last 30 years and why they will be critical to the success of reform efforts that people are talking about in 1995.

AFDC was created in 1935 to help a group of single mothers, primarily then widows, stay out of the labor force and take care of their children. The goal was to reduce child poverty, and at that point, the possibility of long-term receipt was accepted for that group. But much has changed. Women have flooded into the labor market, and the welfare population is now primarily unmarried women. And providing long-term support is clearly not popular.

The public wants change, but it also wants change that would satisfy two conflicting goals: Providing a safety net under children, but also requiring that their parents work.

Starting in the late 1960's and in 1988 with the creation of the JOBS program under the Family Support Act, Congress and the States crafted a new basic compromise to try to reconcile these conflicting goals. Welfare should be transformed from a no-strings-attached entitlement—if you are poor, you got money—to a program where families could continue to get support, but only if they would participate in some form of work-directed activity or work itself.

Now, effecting this transformation has not been easy. Nonetheless, there is unusually reliable evidence suggesting that change can be successfully implemented and that JOBS can be a four-fold winner: Helping society meet its two goals of providing more money for children and getting their parents to get more of their income from work; saving money for taxpayers and making welfare more consistent with public values.

The best evidence of this comes from a recently completed study of California's JOBS program called GAIN. At its most successful, in Riverside County, California, which set a benchmark for what we know about JOBS' potential, GAIN produced a 50-percent increase in earnings, a 15-percent reduction in welfare payments, and returned to taxpayers about \$3 for every \$1 they invested in the program. Throughout the State, the results were about half that level.

Now, what distinguished the Riverside program? Several elements: Emphasis on people getting into a job quickly; a strong reliance on job clubs but substantial use of basic education; a tough enforcement of a participation requirement, getting about 60 percent of people active in the program; close links to the private sector; and a cost-conscious and outcome-focused management style.

¹ The prepared statement of Ms. Gueron appears on page 218.

Studies indicate that different JOBS approaches can have different results. Job clubs, getting people to search for jobs and helping them do that, seem to be able to get people into jobs quickly and save taxpayers money but they do not affect job quality and do not seem to succeed for the most disadvantaged.

Adding some skills training seems to cost more, but can get some people better jobs and may be able to be more successful with some of the long-term disadvantaged. Programs that favor quick employment but have a mix of elements may be able to achieve both objectives.

As for mandatory work-for-benefits, sometimes called workfare programs, there have not been a lot of studies, but, in strictly budgetary terms, these programs do not appear to save money. However, they have almost always been operated at relatively small scale. But they do provide a way to maintain a safety net for children while sending a strong pro-work signal to their parents and producing socially useful work.

Bringing the JOBS system nationwide up to the standard of high-performance programs like the one in Riverside is a way to respond to the public's interest in changing the nature of welfare and is a vital prerequisite to making a time limit, either with work at the end or with work not at the end, feasible and affordable. This is because, from a State perspective, the risk of time limits will be too high unless more people get off of welfare before any time limit is reached. That is because, if more people do not get off, too many people will hit the cliff, and either you will have to require their participation in subsidized work, which costs more than simply sending out a check, or they will face a dramatic loss in income, with unknown effects on families and children and ultimately other areas of State budgets.

However, Federal and State actions are needed to make JOBS reach its potential. The first need is for more resources. Yet despite broad-based enthusiasm for work programs, JOBS is at risk for cutbacks. This could occur if States under block grants have to pay for AFDC benefits and work programs out of the same fixed resources.

The second need is to make the programs, when they operate, more effective. This, I think, requires changes in what staff do at a local level in welfare offices.

The Federal Government has a clear role also in providing States with reliable information on how to improve program performance. But the States have the clear challenge of making a reality out of the potential of this program.

In considering whether to consolidate JOBS into a larger employment and training block grant for States, which is also sometimes discussed, it is important to remember that mandatory welfare-to-work programs have overlapping but different goals from the traditional voluntary employment and training system. JOBS programs may seek to enhance people's skills and get them jobs, but they also are a vehicle to reform welfare, to enforce the participation requirement, and reduce the welfare rolls. Operationally, this points to the importance of ensuring that JOBS programs are closely linked to the administration of welfare.

A final word just about the welfare reform debate itself. I think it will be critical not to overpromise or simplify the likely success of reform. Helping the public understand what level of change is attainable might break the cycle of cynicism that has resulted from past waves of welfare reform.

Thank you.

Chairman ROTH. I have to say I agree with your last point. The tendency of Congress is to promise, with the passage of every new law, that it is going to solve something, and next year we come back and do it again.

Ms. GUERON. But with the public angrier.

Chairman ROTH. Absolutely. Right.

Dr. Mead.

TESTIMONY OF LAWRENCE M. MEAD,¹ Ph.D., PRINCETON UNIVERSITY

Mr. MEAD. Thank you very much, Mr. Chairman.

It is a delight to be here, and may I also say it is a delight to see Republicans in the majority for the first time in my experience—well, first time that they have been in the majority in all of Capitol Hill.

Chairman ROTH. New to all of us.

Mr. MEAD. Yes. Let me just say a word about the Republican proposals in the House to cut eligibility for teen mothers and also to time-limit aid. I think that to do this would be a leap in the dark. We cannot say what the effects would be. There is no reason to think from current research that these changes would have the effect of reducing unwed pregnancy, which is the main goal. They might have that effect, but we do not know that. And the other thing to say is that they conflict with public desire. The public desire is to reform welfare while maintaining the principle of aiding the needy. If you go the route of time limits and eligibility cuts, then you are reforming welfare by curbing access to aid, which is not the public's first preference.

I do not mean that we should not do it. It may be necessary to do these things in the same way that we mandate capital punishment as a statement of a social principle, and not because we claim that there are clear deterrent effects. But we should understand that that is what we are doing, and not claim that it is going to change behavior very much.

I personally think that work requirements are a sounder way to reform welfare because they are consistent with public expectations. They maintain the principle of aid while at the same time enforcing a requirement that people do something to help themselves. When people go off welfare by going to work, that is exactly what the public wants in the way of welfare reform, and it is also what the recipients want themselves.

So the major question in the debate is not the ideal, which clearly is to reduce welfare through employment, but, rather, whether it is, in fact, possible to do this, whether work programs can do that.

¹The prepared statement of Mr. Mead appears on page 234.

I think there has been a recent tendency, particularly on the part of conservatives, to argue that work programs actually do not have much effect, that their impact is merely symbolic. They are a way of honoring the work ethic, but they do not have enough effect on families. If we want to stop unwed pregnancy, then we have to intervene in some more forceful way, for example, by curbing eligibility, access to aid, time-limiting welfare, and so on.

I think it is possible to say that work requirements have a greater effect than that. They actually have a large effect on dependency and on other useful outcomes. In a recent study that I have just finished that included a study of why welfare rolls have grown in the Nation, I found that, if you look across the States, a major determinant of whether the welfare rolls grew was how toughly the JOBS program was implemented. In States which enforce this program stringently, there were lower increases in welfare and actual reductions in some cases, even controlling for a number of other factors. So the JOBS program really does have the potential to at least restrain the growth in dependency and perhaps to reverse it in some cases.

It is also clear from other research that it is a good thing for children of disadvantaged families if their parents are working. Therefore, the JOBS program, by causing more parents to work, is also good for children. And there is also one study that shows that work requirements and welfare requirements, including JOBS, have the effect actually of reducing unwed pregnancy. So if we take the very thing which those who would favor cutting welfare want to do, namely, reduce unwed pregnancy, one way to do that, apparently, is to require that people work.

Now, it is important to note that there is not a lot of evidence that we have any way of reducing illegitimacy. I think the major reason not to make unwed pregnancy the focus of welfare reform is that we do not know a whole lot about it. We do not know really how to do that. The whole problem, I think, with advocating family policy is that we do not have clear-cut levers that could really affect the problem. Work requirements may actually be the best family policy we have. So work requirements are a lot more than symbolic, and we should see this as a level which really has an effect on our social problem, and we should be ready to push this lever harder than we do.

Now, to maximize the effects of these programs, I would advocate the kind of reforms that Judy has just mentioned. Let me be a little bit more pointed. It seems to me there are three crucial determinants in effective JOBS programs, and we can already determine these from the research.

First of all, you have to have high participation. You have to mandate participation in these programs. They cannot be voluntary. You have to require that people enter the program, not just sign up but actually undertake some activity. That is the most fundamental result.

Second, you have to require actual employment. You have to require that people look for work. I would say that the single most sensitive issue in today's welfare reform debate is the question of up-front job search. Are we going to require people to look for work immediately on going into welfare? It appears that we have to do

that. This is the essential change, the biggest single change that should be made in the JOBS program. I do not mean you should not also have education and training, but it should be after a person is working at least part-time.

Third, you have to have tight administration. You have to enforce these activities closely. You have to follow up on clients. You have to monitor their attendance at activities. About 90 percent of the administrative task of running a JOBS program is monitoring the attendance of the clients, simply getting them to show up and fulfill their obligations. And although you do not immediately do this, you must be prepared to sanction people who do not participate.

Now, in the same study I just mentioned, on welfare reform in Wisconsin, I carried out an analysis of the JOBS program in the State, and I found that the most effective programs were those that minimized the delay between the client going on welfare and actually going into the JOBS program. Secondly, programs that enrolled high percentages of clients so that they actually had to engage in activities and not simply *pro forma* be subject to a work test. Also those that placed high proportions of clients in actual job-oriented activities, including job search, and downplayed education and training, especially in advance of employment. They enforced these rules with case managers who followed up on clients closely, and they minimized the use of Government jobs.

I agree with Judy that government jobs are not the way to go. Government employment can play a role in some programs to enforce the job search requirement for clients who one suspects are not really looking for work seriously. But it has to play a minor role because the costs and the administrative problems are overwhelming.

Now, by methods like this, the best counties in Wisconsin, most notably Kenosha County, already have over a third of their recipients working while still on welfare. These are people who are still on the rolls, but they are working, at least half-time. A remarkable achievement. If we could somehow generalize Kenosha around the country, I think we would probably see a dramatic drop in dependency and, just as important, an improvement of the life of the people still on welfare.

It has been usual to say that there is a trade-off in welfare and employment between requiring people to take immediately available jobs, which are usually low-wage, and investing in skills and remediation in various ways so that they can get better jobs and then get off welfare.

I think there is such a tradeoff, but not much. The way to go, predominantly, is to go for job quantity, to insist on actual employment, and then alongside that to have a certain amount of remediation to help people train for better jobs.

The reason why this works is that, for this population, to accept the available job is really the best way to get the better job later. These are, on the whole, people who are not very good at learning in school. Many of them are dropouts. They are not good at school book learning. The best way to increase their human capital is actually to take the available job and then with that job experience go out and get a better job in 6 months' or a year's time. So we

should go for the job emphasis and downplay skills and remediation, but allow some training alongside a program where people are already working at least part-time.

Now, the other thing to stress is that more than anyone has said this morning, welfare reform is an administrative problem. It involves the creation of programs at the local level which have the capacity to surround the recipients with a regime, what I call paternalism, where you support people at the same time that you require that they do things. And the requirements have to be expressed by case managers who are checking up on attendance, who follow after clients when they do not show up, send them letters, call them up on the phone, go out and visit the home. Follow up, follow up, that is the thing that produces results. You have to get after people to fulfill the requirements. My phrase for this is "help and hassle." There has to be help, and there has to be hassle.

The question is what the Federal role should be to achieve that. My criticism of the Clinton plan and the Republican plan in the House is that they do not do enough to do those things. The JOBS program exempts about half the adult recipients on grounds that they have very young children. It demands primarily education and training from the rest of them. It doesn't really require employment. Above all, it does not require up-front job search. The participation rates now required by States are only 20 percent on a monthly basis, and participation is defined generously.

The Clinton plan would exempt fewer adults and would raise participation rates to 50 percent, which is a positive step, but it allows States to exempt large parts of the caseload. The new requirements under Clinton would not apply to anyone born before 1972. In the Clinton plan, I think the rhetoric is a lot stronger than the actual work enforcement.

Now, the Republican plan in some ways is too tough. It demands actual work from more of the caseload, which is good, but it demands participation rates of 50 percent, using a more demanding measure than now. I personally think that that may be achievable, but it has to be phased in over a number of years. The real problem is that in measuring the 50 percent, the Republicans in the House would not allow education and training to count. It would all have to be actual work. Although actual work should get priority, if you do that it is then harder to meet the 50 percent. I would prefer to allow education and training activities to count alongside actual work.

Then also they demand 35 hours a week of effort by a recipient in order to count as a participant, and I think that is probably too tough. We have to compromise with the mother's family obligations. I would say half-time. I would allow a client, after half-time, to go into education and training also. But the actual obligation would be half-time.

Now, both plans worry too much about time-limiting aid, which I do not really think is feasible, and they also try to enforce the time limit through guaranteeing work with Government jobs, which I also think is infeasible. I would rather try to change the nature of aid so that people have to work or look for work half-time right away, as soon as they go on welfare. Rather than try to limit the length of welfare, change the character of welfare, so that when

you go on welfare you immediately have to work or look for work half-time. That is your obligation, and you have to fulfill that for as long as you are on welfare.

But if you do that, then I do not see a need to time-limit aid. I think at that point you are satisfying your obligation. In my testimony, I suggest various ways to do that.

Let me make just a brief comment on the idea of block granting welfare and the JOBS program. I think to do this is risky from a number of points of view. First of all, from a conservative point of view, if you give up Federal standards in welfare, which is what this really means, then you are allowing a number of States in big cities to carry on a liberal welfare policy essentially undisturbed from Washington. In New York City, there are a million people on welfare. In my view, that is a danger to the Nation. That is a scandal in which all Americans have a stake, even if they do not live in New York. I do not think we should allow New York to run the kind of welfare they are running today. They should be confronted with Federal requirements to put those people to work much more than they are doing now.

On the other hand, from a liberal point of view, if you abandon welfare standards, you will allow some States, notably in the South, perhaps, to resurrect the kind of invidious practices which 30 years ago gave rise to the welfare rights movement. In the hearing Judy and I were in 2 days ago in the Ways and Means Committee, there was a demonstration in the hearing room by a welfare rights organization. That sort of thing would become more frequent, I think, if national standards were abolished.

I would challenge the big cities using national standards, but do so on the basis of law that is not invidious, that does not allow an excessively discretionary welfare policy.

The thing to have at the center is not the bureaucracy, but the standards, and I would say standards about dignified payment of benefits, work requirements, quality control—performance standards, in other words. These are the things that should be set from Washington, not process standards.

For example, I would abandon the targeting provisions of the JOBS program. I do not see a reason to insist that 55 percent of the money be spent on groups that we think are going to be long term, because we cannot really predict who is going to be long term. I would not have as many process requirements. I would have performance standards, and then delegate the administration to the local level. Have localities construct programs that they find to be effective with a number of different emphases, provided that the national standards are fulfilled. Those are the matters in which the Nation has an overall interest, and if we do that, then I think we are moving towards welfare reform, even though there will still be a lot of variety around the country.

Thank you.

Chairman ROTH. Thank you both for your very excellent testimony.

Early on, I think, Dr. Mead, you said something about how none of us really know for certain what will work. If that is the case, why doesn't it make good sense to let the States experiment?

Mr. MEAD. I do not think I said we do not know what works. I said we do not know what will happen if we cut eligibility radically or if we time-limited—

Chairman ROTH. Then I misunderstood you early on. I thought you—

Mr. MEAD. We do know some things that work. I think what we know is that well-run employment programs of the kind that Judy and I are describing have effects. If we were to insist on a Riverside, a Kenosha-type model around the country, which is basically what I would advocate, we would see large effects on the caseload. I do not think we will abolish welfare, but we will probably reduce the caseload significantly, and just as important, make the experience of being on welfare more constructive than it now is. People who are on welfare would be doing more to get their lives together, living in a way that helps their children, and so on and so on.

Now, there is already a lot of experimentation going on, and I would not be averse to expanding the scope of it. I think of the earlier discussion about limiting the permitting process, the waivers process, having States given more options—that probably is desirable. But I do not want to see an abandonment of national standards for the JOBS program. To allow the States to run any kind of welfare program they want is going to mean in New York City no JOBS program, and in some other places it might mean the abolition of all aid.

I do not think those extremes are acceptable to the American public.

Chairman ROTH. I suspect some people have not thought about the possibility that giving total flexibility will result in no change in some of your urban areas.

Mr. MEAD. There is a contradiction at the core of conservatism. Do we use power when we possess it to enforce conservative values, or do we abandon power because we think that it is somehow evil? I think the latter position is one that dominates thinking in the House. Both are evident in the Contract With America. A lot of people, a lot of conservatives still believe there is something inherently liberal, something inherently destructive in that Federal power, and when we get control of Congress, the first thing we do is dismantle Federal power. I think that is a mistake. In fact, Federal power can be used for good purposes. It can be used to enforce values that are all agree on. The two key values to the public are helping the needy and enforcing good behavior from the parents. We can do something about those two values. One of them might be called liberal, one conservative. It should be the business of national welfare policy to safeguard those values, and then delegate the administrative details to the States.

Chairman ROTH. But obviously both of you, Dr. Gueron, you feel that replication of the Riverside program will bring similar results.

Ms. GUERON. I do not think we know whether in tough urban areas this can be replicated with similar results. I do think that it is very, very important to try. I do not think the techniques used were exotic or the conditions were exotic. But the single-mindedness and the conviction that people knew what they were about, that they placed an enormous priority on work programs, that they were not confused by conflicting objectives, that they had enough

resources: This was unusual. The various techniques used in Riverside have not been tried single-mindedly in urban areas, and I think it is going to be very important to see if they can be as successful.

If they cannot and if it turns out that the inner city job market is a much greater constraint, we should learn about that. That is clearly what we heard in a prior hearing we were at. There is real concern that programs will be less successful if there are no jobs. But we have not pushed up against that yet. We have not run tough enough programs to know that we have hit that limit, and I certainly think we should be pushing in that direction.

Chairman ROTH. Let me ask you this question: How do you sell the bureaucracy on being tough?

Ms. GUERON. Well, it is interesting. We conducted this study in California. When we started working with the State of California, we chose a bunch of counties that were very diverse, to represent the diversity in the State, and the evaluation over the years has turned out eight reports. Initially, I remember how annoyed the other counties were to see that Riverside was doing better, and we used to go to these meetings of the county welfare directors association, and the other counties would say that their programs would be better off in the long run and just wait and give them time. And there was a lot of jealousy and anger.

It is very interesting to me now that when we have gone back with a final report that has cost data, cost/benefit data, and it is very conclusive about the relative return of different approach, that other counties are at this point, really stepping back and saying, OK, we believe this information, this is very convincing to us. Los Angeles County wants to see whether it can run the Riverside model and whether it will get similar results. That is very striking.

So I think that hard information can be convincing, and you need to bring that kind of information to different administrators, and that is certainly a Federal role: To collect information on what works and aggressively get it out to the communities. There is an illusion that all States know exactly what to do and are very competent to do it. That is an illusion. Some States are way ahead of the curve on this issue and very forceful and know what they would like to do. Others are as confused as anybody else and lacking in resources to find out.

So that is a real function that the Federal Government can serve.

Mr. MEAD. Just a comment on that. This is a slight exaggeration, but not much: The key is not to have a particular kind of JOBS program. It is to have a JOBS program at all. In many localities particularly in the big cities, only a minority of the recipients, even the employables under the current law, face any serious requirement to participate. It simply is not implemented.

In New York, the program is simply overwhelmed by the sheer numbers. They have armies of recipients engaged in self-initiated education and training who never have to look for work, who never have to go to work. They are burning up child-care money for nothing, for people who really are not ever going to take a job by this route. At least that is what we have learned.

In Wisconsin, the reason why they are more successful is not that they are particularly tough about what they expect of the re-

cipients, but because they have a real program, because they really make people enroll. They do not allow them to sit at home. They enforce it. They go after people. And in the good counties—and even all counties are good by national standards in Wisconsin—you cannot get away from that. They are all over the clients. They have got them pinned down. They have got them assigned to do something. Everybody is doing something worthwhile. That is how they generate their results.

So to obtain a good program primarily means simply getting up the administrative force to actually get participation from the bulk of the clients and, secondarily, have them actually look for work.

My conclusion—and I know this is unpopular—is that you actually have to invest in the bureaucracy. What you need is more case managers to ride herd on the clients, to follow up. You do not need a whole lot of new spending on training, education, child care. All those things are frequently available in the community. You do not have to have JOBS pay for those. There are 25 other programs out there willing to provide various kinds of remediation.

The core JOBS function is to obtain actual work effort from the clients. It is not as if clients are blocked by lack of resources. It is, rather, that they are hanging back. They do not come forward to exploit the resources that are already available.

So the key to JOBS is to construct, again, a regime that will combine support services with clear-cut follow-up of the client by the staff to make sure that people do what they are supposed to do.

Now, having said that, you still have 25 options about how to run a JOBS program. It is not as if that dictates a certain design. There is a lot of other variation you can still exploit, but you have got to have a real program, and it has got to actually enforce real work. If you do those things, then you start to have large effects.

In Milwaukee, where they just reorganized the program, basically the State said to Milwaukee, You have to get serious, you have to start actually having people look for work rather than all of them going into education and training. The minute they did that, job placements jumped sharply because they got serious.

And they have only begun to fight. Milwaukee has only begun to do the things which Kenosha was doing 5 or 10 years ago. Basically what happened in Milwaukee is what has to happen in other big cities all around the country.

Chairman ROTH. Both of you, I believe, have talked about performance measures for the quantity and quality of the jobs achieved in order to create incentives to move recipients off of welfare. I have been very much at the forefront—as a matter of fact, my legislation was adopted last year on what we call the Government performance and results. But I would be interested in hearing how you think we proceed in establishing the administrative and programmatic standards. Do you believe outcome measures should be established at the Federal level? Even if we go the route of block grant, do you believe that administrative standards for the caseworkers, for example, should be established at the State or Federal level? What processes would you suggest for program standards or outcome measures?

It is my understanding that we still do not have outcome measures for the JOBS program even though the legislation was passed

several years ago. So what are some of the issues that make the establishment of program measures for welfare programs so difficult?

Ms. GUERON. Let me make a few comments on that. I think this is an extremely difficult issue, and I would approach this quite cautiously, and let me say a few reasons why.

It is true that when you have strong standards, particularly if you attach money to it at the Federal level, you will get what you measure. You measure something; people will produce it for you. The challenge in work programs for welfare recipients is that, when people talk about outcome standards, they talk about measuring things like people getting jobs or placement rates. But what they really want is not people getting jobs or getting placed, but people getting jobs who would not have gotten jobs without the program.

If you just count people getting jobs, plenty of people on welfare get jobs all the time. What you want to reward is getting some people who would not have gotten jobs into jobs. That is a much harder thing to do. Often people make an analogy; they think outcomes are analogous to profit in the private sector. But outcomes are analogous to gross revenue. You do not want to reward a firm for gross revenue—they are not analogous to your bottom line profit.

I think the cautions come out in the following four examples: To get high placements, it is much easier to change whom you serve and not how you serve them. That is what has led to creaming in the employment and training system. That is the easiest way to do well on outcome standards.

Studies show no clear correlation between communities that have high outcomes and those that have high impacts. We have had a job training system in this country that has been motivated by outcome standards: The JTPA system. It has not done better for welfare recipients than the JOBS program. As a matter of fact, the recent evaluation showed that it did similarly on earnings, but produced no welfare savings. And it is very hard to create a level playing field across States.

Now, this does not mean that I do not think that outcome standards are effective as a tool to motivate staff. The Riverside program that I mentioned used outcome standards at a local level to motivate staff, but it combined outcome and participation standards so that staff could not get away with serving only volunteers or the more employable. Riverside used two things that kind of got staff in a double vise. They were striving for outcomes and placements, but they also had to account for every person on the caseload.

I think this is very hard to do at the Federal level, because we do not really have good models of State and local reaction to performance standards. So I am sympathetic to the idea of outcome standards—and you hear it from the States who say, tell us what you want and get out of our way. But I think that States say this in part because they know that they will figure out a way to get you what you want, but this way will not necessarily lead them to run better programs.

Chairman ROTH. Dr. Mead.

Mr. MEAD. I am more optimistic about this, although I do not differ very much from Judy in my practical conclusions. The truth is

that we used to have performance measures in welfare employment. Under the WIN program, the predecessor of JOBS, there was a set of measures, and the most important had to do with job entries per staff, job entry wage, retention rate, welfare grant reductions. These were all established measures in the WIN program, and States were measured on those criteria every year. Then half the funding that they got from Washington was based on their relative performance on those numbers.

So it is not that we do not know what the chief measures would be. I think we do. The real problem is the one that Judy mentions, that it is hard to establish a level playing field. It might be easy to generate such results by just serving the most advantaged clients, or States that had the best environment, the most jobs and the most placeable clients, would do better than others.

Now, I am not so concerned about that, for a couple reasons. First of all, in the Riverside case, and other cases of successful programs, we find that the successful programs, even from an impact point of view, are the ones that reject creaming. The effective programs go after everybody. The Kenosha message, the Riverside message, is that everybody has to work, and they try to put everybody in some meaningful activity, hopefully actual employment. One reason that they do that is that they find that they cannot predict who can actually work, as well as the job market. So why assume that somebody is unemployable? Let's have them all look for work.

The other reason I am not concerned is that you could easily combine these output or outcome measures, like job entries or job entry wage or retention, in such a way as to create an incentive to worry about both job quantity and job quality. In the WIN measures, the job entry measure was a measure of quantity. The same thing is true for welfare grant reductions which are related to how many jobs you get. But then they had retention rate and job entry wage, which were measures of quality. The two aspects were carefully balanced in the formula so that you did not really have an incentive just to produce a lot of cheap jobs. You had to worry about job quality also.

In my testimony I recommend combining performance measures with some tie to funding with threshold measures of participation. A program would be in the kind of double bind that you mentioned, where you are saying you have to have 50 percent participation on a monthly basis, but you also might have to have maybe a third of the clients working who are still on welfare, as in Kenosha. We have those requirements for participation, and those are mandatory. You are not allowed to run a small select program aimed at just a few people. But then we have performance measures that are not really mandatory. You can trade them off as you wish, with funding related.

So I think by these methods one could avoid the danger that Judy is talking about. As a last resort—and they were actually about to do this in WIN with the system that was disestablished by the Reagan reforms—you could actually assess performance relative to the environment. You can do a controlled performance assessment where you look at a State's expected performance relative to its environment, relative to the job conditions and the demo-

graphics of the clients, and then see how JOBS performs relative to that. This means the States that have tougher conditions would, in effect, be held to a lower standard than a State with better conditions. So you can make it fair.

Chairman ROTH. Well, I wish time permitted us to continue. I do not know about you, but I am hungry. [Laughter.]

I want to express again my thanks and appreciation to both of you for being here. We look forward to perhaps continuing this conversation at a later time.

Thank you very much. It has been very helpful.

[Whereupon, at 2:26 p.m., the Committee was adjourned.]

REINVENTING GOVERNMENT INFORMATION SYSTEMS IN THE FEDERAL GOVERNMENT

THURSDAY, FEBRUARY 2, 1995

**U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
*Washington, DC.***

The Committee met, pursuant to notice, at 9:30 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr., Chairman of the Committee, presiding.

Present: Senators Roth, Cohen, and Glenn.

Chairman ROTH. The Committee will please be in order. My colleague, Senator Cohen, has a conflict, so I am going to ask him to make any preliminary remarks from the beginning.

OPENING STATEMENT OF SENATOR COHEN

Senator COHEN. Well, thank you very much, Mr. Chairman. It seems that we are always in a conflict situation with the Senate schedule, but I appreciate your yielding to me, and I know that Senator Glenn has a similar meeting to attend shortly, but I will try to return.

Mr. Chairman, I want to thank you, first of all, for holding today's hearing to examine how the Government can improve efficiency and reduce costs through automation. The Government currently spends some \$25 billion a year on information technology, and yet much of it is wasted because we don't look for ways to improve the way in which Government does business before we spend the taxpayer's dollars.

In fact, Federal agencies spend money to automate for the sake of automation without ever clearly articulating what they expect to gain from the automation or how they are going to measure the return on the information technology investments.

Information technology offers the Federal Government the potential for truly revolutionary change. I use that word with all due deference to the Speaker in terms of "revolutionary change." Taking advantage of advances in technology can remake how the Government does business, but thus far the Government is not poised to take advantage of the wealth of opportunity offered through effective automation.

We must be clear that future expenditures on information technology will maximize efficiency, and to do this we have to first look at ways to improve the Government's business practices before spending the money on the new technology because unless we

change the processes, we cannot invest wisely in the tools needed to realize significant savings to the taxpayer.

It was with the capturing of these savings that I first began looking at how the Federal Government uses and purchases information technology, and last October I released a report on computer purchases in the Government which, to say the least, found much room for improvement.

The computer chaos report, copies of which have been distributed to the press—and for other members of the audience who care to get copies, we will see that you get them—outlined a litany of Government failures to effectively automate, including problems with the FAA's advanced automation system, the IRS' tax system modernization, the DOD's Corporate Information Management system.

Federal computer purchases have been plagued by inadequate planning, oversight, and a procurement system that focuses on process rather than results. As I mention in this report, information technology offers an organization tremendous potential for greater efficiencies, but also the delusion of improvements if existing business practices are not changed.

Unfortunately, the Government's processes are archaic and they are designed for the industrial age. We have a terrific system designed for the 1930's. When it became time to automate the New Deal programs of 1960's, we simply automated existing processes, and we have been doing so ever since.

A World War II veteran could take a trip with today's Defense Department, fill out his travel voucher, and feel that very little has changed over the past 50 years. This is why I initiated a GAO study which I hope Mr. Bowers is going to issue within the next few weeks that should identify billions of dollars in savings in adapting information-age travel procedures used by top corporations in this country, rather than the industrial age policies now used by the DOD.

I don't think we can repeat it often enough that we cannot automate existing processes and expect to realize the real potential of automation. Just buying computers is not enough. The real savings are going to be derived from changes in the process before we automate.

So to achieve these savings, we have to carefully scrutinize what the Government should be doing and make a determination whether that function should be privatized, contracted out, shifted to the State level, or performed at the Federal level. Of those inherently Federal missions, we have to look at existing processes and streamline and reengineer them. Finally, after we have successfully performed business process reengineering studies, we should apply the tools of the information age to capture those savings through the improvement process.

The Federal Government has yet to realize this promise of technology. Agencies have become used to receiving their budget and not being held accountable. In frustration, we in Congress are accustomed to passing law after law, adding layer upon layer of review, driving the need for new regulation upon new regulation. So innovation and change are not rewarded; in fact, they are penalized.

So we have to break this cycle and encourage innovation and entrepreneurial behavior, and it is not going to be an easy path. As Peter Drucker stated recently, "All service institutions are threatened by the tendency to cling to yesterday and tend to put their best and ablest people defending what no longer makes sense or serves a purpose. Government is particularly prone to this disease."

That statement by Peter Drucker reminded me of something that was said many years ago by Justice Oliver Wendell Holmes, Jr. He said, "It is revolting to have no better reason for a rule of law than the fact that it was laid down at the time of Henry IV." He said, "More revolting is the fact that the grounds for the rule have long since vanished and the rule persists out of the blind imitation of the past."

It seems to me that we have been engaged in the blind imitation of the past, and so it is my hope, Mr. Chairman, that this hearing will be the first of many in which we will try to find a cure for the ailment. I, of course, look forward to working with you and Senator Glenn and others, including our colleagues from the House, to fashion a system that is going to ensure that the Government can efficiently and effectively use information technology to "reinvent itself."

Thank you for your indulgence.

OPENING STATEMENT OF CHAIRMAN ROTH, JR.

Chairman ROTH. Thank you, Senator Cohen.

Today's hearing is, of course, the second in a series on reinventing Government. We will explore the opportunities for improving Government performance, while lowering costs. Many of today's opportunities in this regard were not even available a decade ago.

This hearing will focus on the Federal Government's use of management and information technology innovation. GAO's report entitled "Improving Mission Performance Through Strategic Information Management and Technology" notes that Federal agencies have not kept pace with evolving management practices and information technology.

More recently, the GAO reported to me that Federal managers do not have the essential information to do their jobs, despite the fact that we have invested more than \$200 billion over the last 12 years on computers. The problem is that far too often agencies buy computers just to have one on each person's desk.

For example, GAO found that the Social Security Administration is buying 90,000 computers and spending \$5 to \$10 billion that may not be needed. Some of the agencies are buying computers like a junk food junkie buys bacon double cheeseburgers and candy bars. There is lots of fat and sugar, but little healthy substance.

There is a more subtle issue here that needs to be highlighted. It is not enough to buy computer capacity. You can't put a jet engine on a train and expect it to fly. Modern organizational structures and management processes are required before computers can yield meaningful cost savings and capability improvements.

If Government does not make the necessary structural and process changes, then the \$25 billion annual spending on computers will be for naught. All we will have achieved is inserting 1990's technology into a 1960's organization. I think Senator Cohen said

1930 and that is probably more accurate. We will have several hundred billion dollars of new computers, but no corresponding increase in capacity.

Today, we will have four distinguished witnesses. I have asked them to elaborate on opportunities for efficiency and effectiveness in the Government's management of information. In particular, I have asked that they identify high-payoff opportunities that can achieve significant improvement in productivity, cost savings, and timeliness. I have also asked the witnesses to elaborate on lessons learned that will ease the implementation of needed reforms.

These lessons should include human resource management issues, procurement, capital investment issues, and organizational issues.

I will not read my entire statement, but, without objection, will include it as if read, and will do the same for all Members of the Committee.

[The prepared statement of Chairman Roth, Jr. follows:]

PREPARED STATEMENT OF SENATOR ROTH, JR.

\$200 BILLION LATER: IS THE GOV'T ANY MORE EFFICIENT?

COMMITTEE EXAMINES HOW FED GOV'T CAN BETTER USE TECHNOLOGY

WASHINGTON—The following is the opening statement of Senator William V. Roth, Jr., Chairman of the Governmental Affairs Committee, at Thursday's Committee hearing on Information Management Systems in the Federal Government. The hearing is the second in a series of hearings that the Committee is holding to help develop and evaluate options for improving the effectiveness and efficiency of the Federal Government. Roth's statement follows:

The American taxpayers continue to send a clear message to Washington. They want a smaller Federal Government that operates within budget, while providing better service. Accordingly, the Balanced Budget Amendment passed the House of Representatives last week by a large bi-partisan vote. Now, for the first time in a long time, a majority of Members of Congress are committed to zeroing the deficit 7 years from now.

Make no mistake about it, achieving a balanced budget will require a substantial restructuring of the Federal Government. While some may consider this a prelude to pain, I believe that it is a unique opportunity to adapt the government for the 21st century needs of the American public. The decisions facing Congress go beyond the mathematics associated with the budget process. Selling-off assets or across the board personnel cuts could lead to a poorer performing, less efficient government. Moving around a few blocks or cutting a few programs does not yield the magnitude of changes needed. Rather, Congress must fundamentally redesign the way the Executive Branch operates.

American society is changing. Bold changes are needed to make government adapt. The Federal Government is still organized for the industrial era, while everywhere we look America has moved into the information age. The information age has raised the public's expectations for service, in terms of quality, efficiency, and responsiveness. They expect answers in hours or days, not months. Globally competitive companies have increased output several fold, while cutting costs. In contrast, the Federal Government's costs have increased several fold, while few agendas could claim to be doing a better job.

As Chairman of the Governmental Affairs Committee, I am developing a comprehensive Blueprint for Reform that will rightsize the Federal Government to meet the requirements of the Balanced Budget Amendment and the needs of 21st century America. The Committee currently is developing and evaluating options for improving the effectiveness and efficiency of the Federal Government.

First, our efforts will address which functions should be performed at the Federal level and which should be handed-over to State and local governments or privatized.

Second, our efforts will address the organization of the Executive Branch, including the role of central management in ensuring accountability and effectiveness.

Third, whether the product is legislation; a Commission, or some other vehicle, our efforts will address the capacity of government agencies to perform missions at

levels of service and efficiency that Americans deserve and expect. They will identify what needs to be done so that agencies produce results, rather than just process paper.

Today's hearing is the second in a series on reinventing government. We will explore the opportunities for improving government performance while lowering costs. Many of the today's opportunities in this regard were unavailable even a decade ago.

This hearing will focus on the Federal Government's use of management and information technology innovations. We will explore ways to shift the government from merely buying technology to using technology to revolutionize its management practices. GAO's report entitled "Improving Mission Performance Through Strategic Information Management and Technology" notes that Federal agencies have not kept pace with evolving management practices and information technology. More recently, the GAO reported to me that Federal managers do not have the essential information needed to do their jobs, despite investing more than \$200 billion over the last 12 years on computers. The problem is that far too often, agencies buy computers just to have one on each person's desk. For example, the GAO found that the Social Security Administration is buying 90,000 computers and spending \$5 billion to \$10 billion that "may not be needed." The agencies are buying computers like a junk food junkie buys bacon double cheese burgers and candy bars. There's lots of fat and sugar, but little healthy substance.

There is a more subtle issue here that needs to be highlighted—it is not enough to buy computing capacity. You can't put a jet engine on a train and expect it to fly. Modern organizational structures and management processes are required before computers can yield meaningful cost savings and capability improvements. If government does not make the necessary structural and process changes, then the \$25 billion annual spending on computers will be for naught. All we will have achieved is inserting 1990's technology into a 1960's organization. We will have several hundred billion dollars of new computers but no corresponding increase in capability.

We have four distinguished witnesses. The Comptroller General has worked within the Executive Branch, the private sector, and, for over a decade, with the Congress in evaluating the efficiency and effectiveness of management practices. The Comptroller has brought impressive expertise into GAO to evaluate the government's use of information technology. Mr. George Newstrom, a corporate vice president of EDS Incorporated, has been involved in numerous efforts around the globe using modern technology to achieve significant improvements in both business and government practices. Our witnesses from the Defense Department (Ms. Cynthia Kendall) and the Health Care Financing Administration (Mr. Gary Kavanagh) have experienced both success and failure in applying modern information technology to their agencies.

I have asked the witnesses to elaborate on opportunities for efficiency and effectiveness in the government's management of information. In particular, I have asked that they identify high payoff opportunities that can achieve significant improvements in productivity, cost savings, effectiveness and accountability. I have also asked the witnesses to elaborate on lessons learned that will ease the implementation of needed reforms. These lessons should include human resource management issues, procurement issues, capital investment issues, and organizational issues."

Chairman ROTH. Senator Glenn.

OPENING STATEMENT OF SENATOR GLENN

Senator GLENN. Thank you, Mr. Chairman. Oversight of the management and effectiveness of Federal information activities is a critically important part of our job as the Governmental Affairs Committee. It has been a priority for some time and I am very glad that Senator Roth is continuing this emphasis because nothing could be more important for the activities of this Committee.

Yesterday, the Committee took the important step of reporting out legislation to reauthorize the Paperwork Reduction Act. That bill deals with several elements of the information management equation, paperwork reduction, and information resources management.

Like any bill, it is not the final word on the subject. I know that several Members of the Committee want to take a fresh look at a broad array of information management issues, and I look forward to working with them. I look forward to getting into that even more than we have in the past.

Today's hearing is really the first step down that road, looking at efforts of agencies to reevaluate and modernize their information technology operations. We certainly have much to do. Over the last several years, we have been concerned about such things as consolidation and modernization of financial systems in DFAS, the Defense Finance and Accounting Service. We made a lot of progress in that area, and GAO has been able to tell us where they were doing good work, where they were not, give advice on that, and we are talking about billions of dollars in savings potential over there.

Another one is improving effectiveness of the DLA, Defense Logistics Agency, information system, and that gets into inventory management. This Committee has had hearing after hearing after hearing on just unbelievable situations on inventory management where people are just buying and buying and buying because on their watch they are not going to get caught short not buying whatever the issue is over at the Defense Department, with warehouses full of the same thing that they are buying more of because we don't know what the inventory is.

DOD's Corporate Information Management system, the CIM initiative, is having problems getting off the ground. There are planning and funding problems with the IRS' tax system modernization that this Committee has followed for years and years and years. We think that Ms. Richardson over there really finally has a handle on this and is moving forward. So, that is another area of information management. We also have the Customs Service system improvement efforts.

These and other projects show both the importance of system redesign and the dollars to be lost through poorly-thought-out and supervised projects. It is time that Executive Branch agencies get it right the first time instead of having to always correct systems. So I hope that this hearing will bring about this result and ensure wise expenditure of tax dollars and improve service delivery to the public.

Let me just add that in the Committee's oversight of these and other information management initiatives, we have always benefitted from what I have viewed through my chairmanship and through all the time I have been in the Senate as the invaluable aid of GAO, the General Accounting Office. I am very happy once again to see Comptroller General Bowsher before the Committee. We certainly look forward to hearing his counsel.

I want to add a couple of words about GAO, and I am not doing this just because he happens to be present this morning. There has been a proposal we have heard about that would cut GAO funding by another 25 percent. I don't know the validity of that, but if that is to go through, I think that would be a drastic mistake.

As I recall some of our past conversations, I think GAO started back about 3 or 4 years ago making some cuts, downsizing somewhat, and I think they have already made cuts of like 12 to 15 percent. If those were incorporated in the 25 percent, maybe this

whole thing will get manageable, but if they are to take another 25 percent, then I think we are cutting off our nose to spite our face in cutting GAO.

We need our own information here on the Hill. Information management that flows to these committees and flows to every Senator is critical. We are management. Whether we like it or not, we are management, and we need the information and we need the tools to manage properly and we can't do it if we are cutting back on our own sources of information that have proven invaluable to us through the years.

If we reduce the GAO effectiveness, then what do we do? We have less information on the \$264 billion Defense expenditures, less ability to look into those. We have less audits under CFO. We are just getting the Chief Financial Officers Act underway and going, and because of GAO limitations of size over there, we could only do three audits the first year the CFO was in effect. We would like to be doing it clear across Government.

The CFO Act required for the first time in history that every agency be required to do an audit at the end of every year. How basic and fundamental. Yet, it has never been required until 1990 when we passed that Act, and GAO is to do those audits. So I think it would be a mistake to cut back in that area, too.

We would have fewer evaluations of the \$25 billion expenditure on information technology, fewer analyses of where it is working and where it is not working. We would have less analysis on the high-risk list that we put together, with one estimate coming from GAO and one coming from OMB, back years ago. That has proven very valuable in keeping pressure on committees to do what has to be done.

I know that the Chairman is very interested in the Government Performance and Results Act evaluations. If we cut back much on GAO, we are not going to be able to do those. I know that the Chairman has also asked for an across-the-board look at all Government for effectiveness and efficiency, and that has to go forward and GAO is going to do that.

We would have less information on nuclear cleanup. Actually, the information developed by GAO through the years is what led to our whole step-by-step process since 1985 of what has happened under the nuclear cleanup that we need to do that is now estimated to be a 20- to 30-year program and cost somewhere around \$300 billion. So we need to oversee all of that.

I don't want to give any longer speech. That is long enough already, but GAO gets into more efficient, cost-effective Government. They are in there rooting out waste, fraud, abuse, and mismanagement, helping target reductions necessary for a balanced budget. I can't think of a better group to help us downsize Government and how that is going to be accomplished, overseeing information management and accountability, and helping Congress develop trends that may have very major fiscal and budgetary consequences for the future for this country.

I was thinking this morning when I was reading through my opening statement here—I just hope that this 25-percent additional cut to GAO is not true. I hope we can manage that more properly. I realize some of the criticisms of GAO, that they have tended to

get into policy sometimes when some people here on the Hill thought there wasn't any business volunteering things as far as policy goes, or giving unrequested advice sometimes in certain areas. But those are areas I think we can talk about and certainly manage in a different way, but to cut back by another one-fourth, I think, would be a drastic, drastic mistake.

So I wanted to add that, Mr. Chairman, while the comptroller was here this morning because I think it is very important. I think they perform just a tremendously valuable function for us in our information flow, what we need to do to manage here, and I just hope that these are rumors only and that those cuts do not go through at GAO. I think that would be a big mistake.

Just one additional thing. GAO started in 1992 to downsize. I didn't mention this. They had 5,325 employees then. As of last fall, they had 4,700. In 1995, they are going down to 3,975 on their own. They have already planned that because they are putting better technology in. They can do the job, they feel, with that, but if we put another 25-percent cut on top of that, we are going to do a great disservice to the Congress here and to our ability to manage.

Thank you.

Chairman ROTH. Well, I would just say to my distinguished colleague that I thought with modern information technology, GAO probably could do their mission with 10 percent.

Senator GLENN. You mean a 10-percent cut or 10 percent of the people they have?

Chairman ROTH. Ten percent of the people they have.

Senator GLENN. I disagree. [Laughter.]

Chairman ROTH. Seriously, we all agree with what you said, Mr. Chairman—former Mr. Chairman.

Senator GLENN. I like that. That has a nice ring to it. [Laughter.]

Chairman ROTH. I am trying to get used to it. It is quite a change from our point of view.

Senator GLENN. From ours, too, I can guarantee you. [Laughter.]

Chairman ROTH. I have noticed.

Seriously, there is no question that GAO plays a very important role and will continue to play a major role as we proceed with re-inventing Government, or whatever we are going to call it. As you know, a study has been made of its operations and we do, of course, hope some time in the near future to schedule a session on GAO.

I do congratulate GAO and the fact that in the past they have downsized on their own initiative. I think those that are criticizing others have to set an example, and this is an extraordinarily important innovation if we are going to really bring Government into the 21st century.

I don't think I have to introduce you, General Bowsher. You are well-known. You are here often, and we look forward to your testimony today. I would appreciate it if you would introduce those alongside you.

TESTIMONY OF CHARLES A. BOWSHER,¹ COMPTROLLER GENERAL OF THE UNITED STATES, U.S. GENERAL ACCOUNTING OFFICE; ACCOMPANIED BY GENE L. DODARO, ASSISTANT COMPTROLLER GENERAL, ACCOUNTING AND INFORMATION DIVISION, U.S. GENERAL ACCOUNTING OFFICE, AND CHRISTOPHER W. HOENIG, DIRECTOR, INFORMATION POLICIES AND ISSUES GROUP, U.S. GENERAL ACCOUNTING OFFICE

Mr. BOWSHER. Thank you very much, Mr. Chairman and Senator Glenn. I want to thank both of you for the words of support.

Joining today, on my left, is Gene Dodaro, the Assistant Comptroller General for our Accounting and Information Division, and on my right is Chris Hoenig, who is the Director of our Information Policies and Issues Group. Behind me is our senior technology group—Jack Brock, Hazel Edwards, Joel Willemsen, Frank Reilly, and Dr. Rona Stillman.

Chairman ROTH. Could they all rise so we could just see them? [The aforementioned persons stood.]

Chairman ROTH. Thank you. We appreciate your being here.

Mr. BOWSHER. Mr. Chairman and Senator Glenn, enormous budget pressures and widespread dissatisfaction with the Government's performance have heightened the urgency to reform and modernize the operations of the various Federal agencies. However, agencies are encountering tremendous problems in attempting to take advantage of information technology to improve Government and to cut costs.

Meanwhile, the American people are becoming increasingly frustrated with business as usual, and they do want a smaller, more responsive Government that can live within its means and better ensure accountability for achieving real results.

Unfortunately, as has already been pointed out, the Federal sector lags far behind leading organizations that have successfully used information technology to cut costs, to streamline operations, and to enhance service levels. After having spent over \$200 billion on information systems over the past 12 years, our national Government is in some ways in the worst possible situation. It is investing heavily in costly information projects that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs.

My detailed statement for the record describes examples of various system development problems that go throughout all aspects of Government operations in such key agencies as the FAA, the IRS, Defense, Agriculture, Veterans Affairs, and the Social Security Administration. These problems are not only costly, but are inhibiting these agencies' ability to perform effectively and provide efficient service to the public.

Moreover, the Congress and the Federal managers remain information-poor, severely lacking reliable data to measure the costs and results of agency operations. The Federal Government is still a long way from achieving the most basic financial accountability to the public.

For example, due to poor financial systems, we were unable to express financial audit opinions for 5 major agencies—the IRS, the

¹ The prepared statement of Mr. Bowsher appears on page 299.

U.S. Customs Service, the Army, the Air Force, and Education's student loan program. These agencies account for virtually all of the Government's \$1.3 trillion in revenues and a substantial portion of assets and expenditures.

Mr. Chairman, I know you and other Members of the Committee are deeply concerned about solving these persistent problems. The legislation supported by this Committee has laid a solid foundation for reforming Federal management practices. This includes the Chief Financial Officers Act of 1990, the Government Performance and Results Act of 1993, and the Federal Acquisition Streamlining Act and Government Management Reform Act of 1994.

Successful implementation of these legislative initiatives, however, hinges greatly on bringing our national Government into the information technology age. Federal agencies must close the large and widening gap between the public's expectation for efficient and service and the Government's performance, a gap that is undermining the effectiveness and credibility of our Government institutions.

More and more, the American people are enjoying the everyday benefits of technology-driven service improvements in the private sector, such as 24-hour, one-stop customer service numbers, automated bank tellers, overnight package delivery, and telephone credit card payment. Americans are perplexed by their Government's seeming inability to achieve similar improvements.

Significant Federal innovations to improve public convenience have simply been too few and far between, and when innovations are attempted, a dearth of skills and knowledge, along with entrenched bureaucracies, often conspire to produce failure or significantly degrade the projected benefits.

I strongly believe that we must move to a smaller, more efficient Government, one that stresses accountability and one that stresses managing for results. But our Government cannot get there continuing to operate business as usual. To help Federal agencies achieve their potential for improvement, GAO studied a number of successful private and public sector organizations to learn how they reached their own ambitious improvement goals, and in our report we describe a set of fundamental management practices that were instrumental in these organizations' successes. These practices can be adopted by Federal agencies, and we have those on a chart over here, Mr. Chairman.

Leading organizations understood the value of information technology. They actively spent the time to manage down risk and to maximize the return on scarce investment funds. Their leaders employed really three basic principles.

First, they decided to work differently by assessing performance against the best in the world and recognizing that program managers and stakeholders need to be held accountable for using information technology well. In contrast, the Federal Government frequently fails to benchmark itself against the best, delegates information issues to technical staff, and sustains rates of management turnover that seriously hinder true ownership and accountability.

Second, they direct scarce technology resources toward high-value uses by reengineering critical functions and carefully controlling and evaluating the results of information system spending through specific performance and cost measures. Federal agencies,

on the other hand, often buy hardware before they evaluate their business functions, and they lack discipline and accountability for their investments and they fail to rigorously monitor the results that are being produced.

Third, the best agencies or organizations support major cost reduction and service improvement efforts with up-to-date professional skills and organizational roles and responsibilities required to do the job. The Federal Government all too often is held back by an antiquated skill base and confused roles and responsibilities that consistently inhibit the effectiveness of major system development and modernization efforts.

Little can be achieved in streamlining processes unless the Federal agency leaders take the initiative to institutionalize sound, strategic information management practices. We have found many agencies need and want help to close the cost and performance gap with the leading organizations. Over 14,000 copies of our report on best practices of leading organizations have been requested, and we have given 120 briefings to over 2,000 Federal decisionmakers to explain our work.

To get these principles implemented and not just talked about, the agencies need to, one, benchmark their current practices against the practices of leading organizations and develop an action plan for improvement. Second, they need to assert control over their technology investment decisions and ensure that improvement efforts are well managed and directed toward achieving maximum value in improving operations.

Now, the Committee also has a vital role to play. We appreciate the letter that you, Mr. Chairman, and Senator Glenn sent to the heads of the agencies endorsing the management practices outlined in our study of leading organizations. This stimulated great interest and support for our findings. For example, OMB has incorporated the essence of these practices into its revision of the basic policy circular for Federal information resources management.

This Committee can take additional actions to, one, strengthen the legislative foundation for modern management practices it has been building so carefully; two, to set improvement goals; three, to build the capacity of the Federal workforce; and, four, to identify targets of opportunity for reengineering and information technology.

In the legislative arena, the Committee's current work, enhancing the Paperwork Reduction Act, is a very important step, which you marked up yesterday. We encourage the Committee's efforts to refine and develop this Act and to develop other legislation that would improve accountability for information technology investments and results.

Efforts to set goals are critical in getting the Government to engage seriously in the difficult task of change. Leading organizations understand the value of setting aggressive goals to break through institutional complacency and stimulate the redesign of long-established business practices.

While legislation and goals are essential, we cannot ignore the need for a modern workforce. The Federal Government continues to pay the price for not having an adequate cadre of professionals

in the information and financial management areas who can help make change happen and improve the accountability of agencies.

The private sector has painfully learned that reengineering and streamlining projects can easily be delayed or fail if people issues are not addressed. Mr. Chairman, we strongly endorse your civil service reform goal of developing a highly skilled, educated, and trained workforce that is held accountable for what they do and are more responsive to the taxpayers' needs.

The Committee can also keep the momentum for improvement going by focusing on specific areas where agencies can use reengineering and technology to improve service delivery and reduce costs. Current efforts at IRS, Defense, Agriculture, SSA, and VA all have tremendous potential if properly designed and managed. In addition, as you have noted, it is important to consider opportunities in basic functional areas such as financial management, logistics, and payroll. The private sector has found a rich harvest of improvement opportunities in these areas, especially among the larger organizations.

Now, at your request, we are working with this Committee to assess and prioritize a wide range of functional and programmatic areas that can be redesigned, consolidated, privatized, or eliminated altogether. Our work includes selecting a priority group of target opportunities, analyzing the relevant business processes, benchmarking them against world-class organizations with similar processes, and quantifying potential cost savings. We plan to report back to the Committee on our progress with this effort in the spring.

Mr. Chairman and Senator Glenn, I look forward to working with this Committee. It is uniquely positioned to provide important leadership in striving to achieve a better managed Government. We would be very glad to answer any questions at this time.

Chairman ROTH. Well, thank you for your statement, Mr. Bowsher. As I view the problem, the American people in the private sector get fast service, quality service. We all know the stories that you can bank at any time of the day or night. You can go to the local shopping area and get funds immediately. Even if you want a mortgage, for the typical person it doesn't take more than a matter of a few days. Often, a loan for a car is a matter of hours. Yet, we turn to Government and it takes not days or hours or even weeks; it takes months many times for our customer, our constituent, to get an answer.

Now, in your report you spell out how, I think it is in veterans compensation, it takes, on average, something like 151 days. Now, if it takes an average of 151 days, it probably takes others a full year. The same thing is true on disability claims under Social Security. I think the average figure is 155 days.

Now, I don't blame the American people for feeling that we aren't giving service, and the question is how do we—you know, there have been some proposals to change it in the case of the veterans. I think they were going to spend over \$650 million for information technology that would have decreased the amount of time 6 to 12 days. Well, that is peanuts when you are talking about 151 days.

In your testimony, you talked about being bold, and I agree with that. I recently met a few weeks ago with the Vice President and

we were talking about reinventing Government, and I said I would hope that whatever the administration would do, it would be bold in its proposals. How can we be bold here?

Mr. BOWSHER. I think one of the ways we can be bold here is to keep asking the agencies, as you look at the various programs that they are now trying to reinvent, to be bold and to come forward with plans that actually make major improvements in how they deliver their services. That is one of the main themes of our report here, and that is don't just automate or slightly improve your current operations.

The private sector did that for many years, too, but finally when they got into competition, especially with Japan and other countries, they recognized they had to make really major breakthroughs. I can remember on inventory turnover, they used to be happy if they could get a 1- or 2-percent improvement in the private sector lots of times. Now, they turn their inventory lots of times 19, 20 times, maybe 30 times a year, unheard of years back. So, that is what we have to do.

I could have Donna Heivilin come up here to the table because we have been working with the Defense Department, and Donna has particularly, in an area of inventory at the hospitals and the medical areas which now they are moving over into other parts of their inventory. It is a good example of one where for years they just kind of gradually tried to improve it. But then when they saw how a private sector organization, about comparable size, did it much better with a third of the cost of the inventory, they finally decided to try to do that and they have made real progress.

Senator Levin went out and visited Walter Reed with me here a few weeks ago, and if Donna could tell that story, I think that is the kind of story that this Committee ought to be encouraging and holding agencies accountable for.

Ms. HEIVILIN. The most advanced logistics change for DOD is in the medical logistics area where they have put a prime vendor program in place for all of their hospitals. That program is probably most evidenced out at Walter Reed, if you want to go look at it. It is in different stages at different hospitals, but at Walter Reed they have closed down a number of warehouses. They have turned one of their warehouses into an educational facility.

They have cut the amount of inventory that they were using in that area in DLA, in the central logistics function—that is, in the warehouses around the United States—by about 50 percent in the pharmaceutical area. That is the area that they first started to put this in practice. They are going to cut the whole inventory, which will cover medical-surgical and other kinds of supplies, too, by about the same amount in the next 3 years.

Chairman ROTH. What was that amount again?

Ms. HEIVILIN. About 48 percent, they are expecting to cut the whole inventory in the medical area over the next 3 years. They are just putting the medical-surgical supplies into the prime vendor's hands at this point, so that part of it is just beginning. They started with the pharmaceuticals first.

What happens in that kind of a program can happen in a lot of areas, too. The DOD is starting a pilot program, or they have a pilot program started, I should say, in the southeast United States

for the food area. They started it with four food facilities in the Norfolk area, and after about 5 months found that two of those facilities, Langley and Fort Lee, had reduced their food inventory by 80 percent. So they are putting it in place in all of the food facilities that the DOD has in the southeast part of the United States, and if they have as good results, or even not as good—if they save half of their money, they will be moving it to the rest of the United States.

Now, they are also getting ready to put a pilot in place in the clothing and textile area. What they haven't taken on is the hardware items, the nuts and bolts, the things you use for repair, nor have they taken on repairables, and that really is the largest amount in terms of value and the largest amount in terms of line items of inventory.

We have benchmarked for the non-repairables, the hardware items that are non-repairables, the things you would buy at a hardware store, a plumbing supply store, those kinds of things, and found that what is being used out in the private sector is what you call supplier parks. Now, I am talking about the best in the breed in the private sector. For instance, PPG and Bethlehem Steel have supplier parks in place. That is where they encourage their main suppliers to set up a facility close to them so they can have recurring delivery.

Now, they are not telling that supplier that they should only supply them. In fact, in the case of the ones we have looked at, they have wanted their business to be a relatively small portion of that supplier's business because they don't want that supplier completely dependent upon them.

The military is doing a study on this, but they haven't agreed to do that. We think that is where the biggest change can be made, but we are very, very encouraged by what we are seeing in the areas that they have been taking on, the personnel areas.

Chairman ROTH. Very good. I appreciate that contribution.

Mr. BOWSER. I think also when we were out there—Donna will remember this—Senator Levin asked one of the young sergeants, if you have to get the supplies from the old depot there, how long does it take. The sergeant said, well, about 12 days, and it used to be a lot longer. And he said, well, what does it take if you get it from the prime contractor, and he said within hours; he said never more than a day. Those are the kinds of major breakthroughs, what you are looking for and I think what the American public is looking for.

Chairman ROTH. I would sort of like to go back to my basic question, and that is what magnitude of improvement do you think is possible. How do we know what the right goals are to set? When we talk about being bold, what should we try to achieve?

One thing that concerns me is that time is not on our side. I mean, the Government is so large, so complex. There are significant differences between the private sector and Government politics. What would you suggest would be a worthy, bold goal?

Mr. BOWSER. Well, I think most of the agencies that we studied or the organizations that we studied that actually went about this in the right way—namely, benchmarking against the best organizations, really rethinking through their processes—would be getting

40- and 50-percent improvements, lots of times more than 100 percent. So I would think that if the Government can learn how to do it—

Chairman ROTH. Can I ask you a question? When you say 40, 50, sometimes 100, there are three things we are trying to accomplish—improvement in the quality of service and productivity, timeliness, and the cost. Now, when you say 50 percent, are they achieving 50 percent in each of these?

Mr. BOWSHER. No. Generally, what they are doing is gaining substantial productivity gains. Sometimes, the cost gain—and I might ask Chris to amplify a little bit on this. Sometimes, you have to make investments in people and in systems and in computers to get your payoff, but then later on you get bigger dollar payoffs every year.

I think it has to be done on an individual basis. In other words, I don't think that you can put an overall goal out there, Senator, but I do believe that you can ask for substantial improvement goals, and I think the three areas that you have outlined would be a good way to do it. What is the productivity, what is the timeliness, what is the cost reduction that you can achieve?

Mr. HOENIG. Just to give you some examples, Mr. Chairman, in each of those areas of what we found when we studied these leading organizations, in the productivity area, in particular, what we found was that organizations didn't set one-time goals of productivity improvements of 30 to 40 percent. Instead, what they did was they set goals of compound annual improvements, percentage increases every year in productivity.

We found those ranged from 6 to 7 percent productivity improvements a year, which we found in the insurance industry companies that we studied. Another example here is Xerox, Incorporated, which, when they were combatting Japanese competition in the early 1980's and thought that the Japanese were improving productivity at 10 to 12 percent a year, eventually calculated that they had to increase productivity at 16 to 17 percent a year every single year in order to catch up. So in the productivity area, that is the typical kind of range that you might see in terms of goals.

On the timeliness area, the industries have come up with a nomenclature for expressing the potential magnitude of improvements. They call it 10X, or as Mr. Bowsher was saying, 100-percent improvements. So order-of-magnitude possibilities are possible in the timeliness area.

Kodak found that in their customer service operation they not only were able to reduce the number of people that handled a customer from 16 to 1, but to a one-time call and the number of total information systems from 70 down to 1. So in the timeliness area, that is the kind of order of magnitude improvement that is possible.

In the cost area, it is more difficult to get 100 percent improvement because if you get 100 percent improvement, you eliminate your organization. But in the cost area, definitely in the 20- to 50-percent range, given our information, is the kind of thing that is possible, but that particularly, I think, varies across organizations, depending on what their existing cost base is and how they efficient they actually are. Less efficient organizations can get more

out. More efficient organizations have a tougher time actually making large improvement, just to give you some idea.

Chairman ROTH. Let me ask this question and then I am going to turn it over to Senator Glenn. I mentioned that in the case of veterans compensation and in the case of Social Security disability payments, it was taking something like 150 days, roughly. What should be the goal? What would you suggest that we set forth as a goal to improve that service to the constituents?

Mr. HOENIG. Well, the way the leading organizations we studied went about that, Mr. Chairman, was to ask the customer what they need. There is no reason in today's world, in most claims processing operations, why a matter of days or weeks shouldn't be the goal. There is no way to postulate the answer off the top of anyone's head, but the way to get the answer is to go out and survey the customers and identify what they want.

Chairman ROTH. Let me ask, obviously you have some controversial cases that are going to extend over, and we all, I think, recognize that. But for the typical case, is there any reason that Government shouldn't be able to begin to match what is taking place in the private sector?

In other words, if you are a veteran and you are asking for compensation, you don't need that 12 months down the road. If you are asking for a disability claim, you want it now before you die. Is there any reason why, with modern technology, the run-of-the-mill claims, and so forth, should not be able to be processed in a relatively short time?

Mr. HOENIG. The best evidence that we have is that State and local governments have been able to achieve very close to private sector benchmarks in terms of responsiveness, and I don't see any compelling reasons why that shouldn't be set as a goal.

Chairman ROTH. One more question. The size of Government—is that the reason, the fact that you have a million claims? Does that make any difference?

Mr. BOWSER. No, it does not make any difference. I mean, that is a fact of life, but we have some very large organizations today in the private sector and when we asked some of those agencies to come in and consult with us on this report that we have issued here, we particularly invited only the large organizations that were comparable in size.

In fact, that is one of the reasons why when we worked with Defense in this medical area we went out to the medical centers that were comparable to the Army medical centers. So I think once you get a certain size, you have a certain amount of complexity, but that is true in these large private sector organizations that are getting those kinds of things.

If I could give you one story, too, Mr. Chairman, when I first came in as Comptroller General GAO was like every other Government agency. We closed the books months after the end of the fiscal year and we just had a very slow process of closing the books and issuing our annual report. I said why can't we have the annual report ready for when Congress comes back in January every year? Why can't we get an audit of the books?

Well, you know, people were somewhat sure that that wasn't really doable with the staff, but we had adequate staff. We also de-

cided to out-source some of this work down to the finance center in New Orleans to make it more efficient because they were more able to really run the payroll.

Today, we issue our annual report with no trouble at all. We have it ready in December every year. We close the books in 6 weeks. We have a CPA firm come in and do the audit. Once you lay out a goal, as Chris says here, that the customer needs, the Government people are very capable of doing it. But if you don't start to think along those kinds of lines, then lots of times people are willing to go along and do what they have done in previous years.

The private sector was very much that way. If you talk to David Kearns, who headed up Xerox, he said that until he went to Japan and realized how much they were gaining every year and came back and convinced his people that if we didn't do that at Xerox, we were going to be out of business, is the way he put it. And we couldn't just do it at 6 percent or 7 percent if they were doing 10 or 12, and really we were behind. As you made an earlier point, we had to do it at 16, 17 percent if we were really going to catch up and get ahead again.

Chairman ROTH. Senator Glenn.

Senator GLENN. Thank you, Mr. Chairman. I guess I get a little nervous when we start talking about how we are going to solve our problems by big, bold—that is the key word—bold new approaches. Bold is not necessarily a synonym for good. You can be bold and stupid, also, and I think in times past we may have done some of that.

People tend to resist change. People like to talk about change in presidential elections or whatever. We need change, and change in the abstract for most people is great. They like to think we are progressive; we are moving on and we have great change. But change in the specific, when it comes to altering their particular situation or their work or their office—people resist that like the plague, and so it is tough.

I think the key to all of this, all of the things we have been talking about so far this morning—I think it all boils down to this in comparison between Government and private industry: management authority to do things, to make decisions and execute them, and then to be held responsible for what was done.

Our civil service system is just the opposite of that. It discourages rapid decisions. We want to refer our decisions to three more people to review before we get it out because we don't want to take the full load of accountability ourselves, perhaps, if you are in a particular civil service position.

I think that is sort of at the heart of why we have this 151-day, as opposed to 5-hour decision, or whatever it is. If you have somebody with authority and they are going to be held accountable, then that is the way you make decisions. That is the way you do it in private industry. That is the way industries go.

I think we are nibbling around the edge of this thing. We have had civil service reform that was proposed that was going to get to us last fall. It is on hold now for a little while. They are redoing the whole thing now, but I think any system that does not come up with clear lines of authority and accountability for decisions—

without that, we are just going to rearrange the chairs and that will be about all we accomplish from that, I think.

We really are at a time of change, and whether you believe in Toffler or Drucker or all of the rest of the people that have been writing about these things for years—we went through an agricultural revolution, we went through an industrial revolution, and we are now in an information revolution. I have been reading about these things for many years. They are now in the forefront of everybody's attention after the last election.

I think this is true, but how we manage this information and what we are talking about here this morning is key to this whole revolution. I think so far we are just nibbling around the edges of this thing. I don't think we really have come up with some way to say we are going to concentrate decisionmaking and then have a follow-up on assessing what those decisions were. I think until we get to that, all the information flow in the world is going to be covered up or stifled or muffled under a giant blanket of indecision as we refer decisions from one level to another, one level to another, and we are back into the same old business again.

Everybody wants a computer. Who makes decisions on what kind of computer? Every work space over at the Pentagon or Department of Agriculture doesn't need a Cray sitting beside their desk. We need somebody making big decisions as we are going through this reinventing and this information management change. We need somebody making decisions on what is needed at each one of these to do the job of that particular person, not what they can count out of the Federal Government in a bigger computer and then just say I have got a bigger computer than you have got. That is not the way we ought to be going.

I don't think we are managing this yet and I don't think we have a handle on it. I think the Vice President and the President are on the right track with some of the reinventing Government proposals, but I don't think we have gone nearly far enough with this to try and define exactly how we are going to operate under a reinvented what.

I guess those are all glib statements, also, along with my criticism of just bold approaches. I guess I am being as vague as the statement of bold approach, but I think until we get management authority down there to make decisions, we are never going to equal the private sector.

Why can Walter Reed get things from a private contractor out there within hours as opposed to "x" months or whatever? Because the private contractor can make the decision. He has got the inventory on the shelf. He had to do that to be competitive and he can send it right over; put a jiffy truck out there and we will have it over to you very quickly.

Until we get that same kind of attitude, I don't know where we go with it. I think we are going to continue to nibble around the edges of this problem. One of the problems that makes management authority even more important is that our time base for decisions has been compressed. If we are going to operate efficiently like a private business, you no longer have months and years to study something. Your information flow is there and you need deci-

sionmaking and your time base is compressed if you are going to get things out in a rapid fashion.

That is more of a general statement than a question, obviously, but I think in this area of redefining things, is there such a thing as going to more central planning for computers for Government, for instance, so somebody defines what is needed at each work space? Is that needed. The CIM over in the Defense Department has tried to take a crack at this thing and that has fallen on sort of hard times. I guess it is coming along better now.

We have a Secretary of Defense and deputy over there, and John Hamre, who used to be with the Armed Services Committee over here, is now comptroller and working very hard on this, and I think maybe they are beginning to turn that situation around. Maybe that can be used as sort of a test case on how we move into this new area.

Would you comment on CIM, specifically, or how do we get decisionmaking out there to where it makes Government more efficient instead of the way we are going now? I guess that is the basic question.

Mr. BOWSHER. Let me comment on your overall point there, Senator Glenn, because if you look on our chart over there we say, under the column of leading organizations, "benchmarks against the best," but then the second line says "holds line managers accountable." There is no question that we do have to change the way we manage the Government through our people. We have got to hold people more accountable for performance results.

Chairman ROTH. If you would just yield there, aren't we really talking about a follow-through on our performance and results legislation? If you are going to have effective management, we have to give authority to the personnel to make decisions and we hold them accountable for their performance, and we pay them according to that.

Mr. BOWSHER. That is right.

Chairman ROTH. So I think we are all in agreement, and we will have some extensive hearings on that because it is a key issue.

Mr. BOWSHER. It is a very key issue. We have often talked here about too much turnover of the political appointee leadership, and that is a big problem in the public sector versus the private sector. That is one of the reasons I think that the members of the SES have to be brought up here into much more of a leadership and management role.

We have done it at GAO. My SES people are very much responsible now for leading all our issue areas and they do an excellent job. I think we have brought that kind of leadership into our own technology area from within the organization and we hold them accountable, and I think that is what other agencies can do.

Gene Dodaro here has built the capacity of our organization in this technology area. That is what is needed. You can't do it if you don't have the talent or if you don't give the talent the responsibility and accountability to get the job done. I agree with you, Senator. A lot of the current civil service rules and other things like that sometimes don't assist us in getting that achieved, and that has got to be addressed, I think.

Senator GLENN. Have you been able to make any breakthroughs in your own organization here in this regard? Do you promote people faster?

Mr. BOWSHER. We do.

Senator GLENN. Do you demote people if they make lousy decisions? Do you have bonus programs?

Mr. BOWSHER. We have had a merit promotion system in the SES since the late 1970's. We have a merit pay system. We have doubled our productivity in the 6-year period from 1986 to 1992 by reorganizing the place. I think as we are bringing the technology in more here, we are going to be able to make significant improvements. That is why I think we can come down, in total, with a 25-percent staff cut at GAO; not another 25 percent, as you point out, Senator, but certainly a total, and that saves over \$100 million a year for the American taxpayer by being able to come down and be a smaller organization than what we were.

It is really reengineering and redoing how we do this work and adopting modern technology to it, and I think the other Government agencies can do it, but they have to have the ability, just as you say, to get those senior civil servants in the SES up there properly selected, properly rewarded, and then held accountable.

That is what New Zealand and Australia and some of these other countries that have made some major changes in their governments—they put a big emphasis on trying to figure out what should be accomplished and then holding people accountable for getting that.

In the private sector, one of the things they do—although they have big plans lots of times, they break it down into individual segments and then check on how well they are standing at each of those segments. The Government lots of times has big plans and then kind of keeps telling you how the overall plan is going rather than how are we doing specifically month after month, quarter after quarter. That is a big difference.

Senator GLENN. We need a way to evaluate these things better. In a previous incarnation, you were in the military, and I came from a military background. In the military, your fitness reports, your efficiency reports, as they are called from one service to another—on your fitness report, you are marked off and each little box is checked off on your performance. You get down in one box and that probably means you don't get promoted the next time, and the second time around you are out. That is it. That is tough and it is a tough system, but it sure does weed out a lot of people. In the military, you have to make decisions and so you are judged on that.

I can't quite imagine the civil service accepting that same kind of stringent performance analysis, but maybe that is a good idea; maybe we need something like that. You know, it used to be a big joke in the civil service—I don't think it is quite administered this way now, but it used to be a big joke that if you have somebody not performing, how do you get rid of them? You promote them; get them out of my shop and into somebody else's shop by promoting them. How ridiculous can you get, and yet that was the custom. It wasn't all a joke; people did that. We should be doing just the opposite.

Mr. BOWSHER. I do believe that when they switched to the Senior Executive Service that they made some very fine improvements at that point, and I think if the leadership of an agency works with that SES system, you have a lot of the same flexibility that you have in the private sector. You didn't have that when we had the old super-grade system, but I think personally the SES system that was put in here some years back has never reached its potential.

Senator GLENN. I am supposed to be asking questions instead of pontificating up here, and I have talked more than you have during my period and I know my time is up, but would you comment specifically on the CIM again and give some details of how that is working? Can we use that as an example for other branches of Government?

It is Corporate Information Management, for those that don't know. It is CIM over in the Pentagon. This was supposed to give a new technologically-sound base on inventory management and decisionmaking information that is needed, and it was really going to be a new way of shaping up information management. They had some problem in the services getting a definition of what terms meant and things like that.

Is that working out now and is that going to be a model, or should we start over on that one?

Mr. BOWSHER. Let me have Gene describe that, and I will add a few thoughts.

Mr. DODARO. Senator, CIM has not reached its potential at all. We have been very disappointed in the results. It is a good example of how it is difficult to change the Government. Basically, there is little reengineering going on to achieve the meaningful change that we have talked about today. Most of CIM is focused on consolidating information systems. A lot of it is being driven by the information technology people rather than top management. Top management needs to be more involved and more focused on it. Also, they continue to have system failures. There is not enough discipline in building their systems.

Now, I will contrast that for a minute with the Social Security Administration. The place to start, to get back to the question of where to be bold, is understanding why it is taking so long. At the Social Security Administration, the 155 days that we have been talking about—they, at our urging, really took a look at why does it take that long and they found that in that 155 days it only takes actually 13 hours to process the claim. The rest of the time is spent moving paper around, having 25 or 30 different people handle the claims, claims waiting in queue for information to get medical records from recipients.

So in answer to the question about being bold, Social Security could get it down, conceivably, to a matter of days if it only takes 13 hours to do the claim, and agencies need to reengineer and look at their processes first. This hasn't happened in CIM. We think there is a tremendous potential there, both in financial systems and the logistics area, but it is an example of where there is an entrenched bureaucracy and they are not really looking at their current processes and dissecting them. That is where you have to start, and that is what will show you what the real potential is to be bold and to set the right kinds of goals.

Senator GLENN. Just in 30 seconds or less because I know I am way over on my time, is the tax system modernization over at IRS coming along good now?

Mr. DODARO. The answer to that is, no, it is not making enough progress that we have seen, Senator. They have begun to redesign their business vision on where they want to go, but they haven't set a specific technical foundation and a management foundation for managing the tax system modernization effort.

They still need to set their telecommunications standards, their data standards for storing and transmitting data, their technical architecture, their business goals for managing the project. As Chuck was talking about, they haven't broken it down into measurable results and goals. That project has been going on for about 8 years now. We have been encouraging them to study their process to determine why it takes so long to process returns, why it takes so long to do matching after the returns are in.

There is tremendous potential there and we think that that effort and the CIM effort need to be continued, but we need to redirect it toward real reengineering so we can understand what those goals are, like the Social Security Administration. At least they know now how long it takes them and what they should be shooting for. In the case of IRS and DOD, we are not anywhere near that yet.

Senator GLENN. We should get DOD and IRS together in the design of their new systems and ask them to meet so that the systems would be compatible.

Mr. DODARO. Compatibility is a big problem. Right now, Social Security and IRS exchange information on tax collection. They can't reconcile their records. There is about \$15 billion over at the Social Security Administration based on data that they get from IRS that they don't know where to post the wage data to in the Social Security records.

So the data comparability and looking at government-wide processes is another big opportunity for the Government to achieve a lot of savings. The savings aren't just within individual agencies, but we ought to be looking at government-wide opportunities as well, and that is where I think this Committee, in particular, can really provide strong leadership.

Senator GLENN. Thank you.

Chairman ROTH. I just want to emphasize that this is the second of a series of hearings on reinventing Government. As you well know, it is a multi-faceted problem. I happen to feel strongly that information technology is in many ways core to the reinvention, but obviously matters like civil service reform, regulatory reform, and others are a part of the overall picture and we hope to be addressing and investigating all of them as time goes by.

The thing that concerns me is your articles are rightfully very critical of what Government has done in the acquisition of high-tech in the information area, and the reason seems to be that too often the purpose of buying that technology is to be modern, to be up to date, to have the latest, without any particular purpose in using it. But if you put a computer on my desk, that doesn't make my office automatically any more efficient.

But the second main criticism, as I understand it, is that too often the modern technology equipment, and so forth, is used to accelerate the current process. The real problem is how do we revolutionize the process so that we, again, produce better service at a lesser cost in a timely fashion.

We have, as you pointed out, some very good illustrations where Government is doing well, but they seem to be the exception instead of the average. Your report indicates that the billions of dollars we are spending is wasted. Does that mean Congress should stop funding these and say, stop this until you have got a plan?

Let me ask you this question. It is a tough question. If you were suddenly fully in charge of reinventing Government, what would be the first five steps you were take, in short, simple English?

Mr. BOWSER. Well, I would go back to those 24 agencies we talked with you about, Mr. Chairman, that make up 95 percent of this Government. I would ask each of those agencies for a real plan of modernizing their processes, trying to figure out what is their real mission.

As I understand it, OMB has started now along this line, but what is their real mission in life and what do they have to do, what can they get rid of, what can they maybe privatize, but then what is their plan for that real central core of their business to really modernize it and be able to serve the customer, whoever that person is, in a really timely, least costly fashion, and bring that to the Congress as a plan.

Then I would start to be willing to finance the changes that were needed to support that plan, whether it be changes in people or changes in investments in the systems area. Then I would hold hearings periodically to find out how well they are doing. In other words, I would really be looking at the return on investment that we are getting, and that is what they do in the private sector. If they buy into a large program, they say, now, let's periodically meet and find out how well we are doing, and we break it down into segments so that we can actually measure the progress as we move along.

I think getting the Government into that kind of an organized way, which takes the leadership of the big agencies, some oversight at OMB, and certainly Congressional oversight, then you would start to make some real progress.

Chairman ROTH. Where does the leadership come from? You have got the political leaders of any administration, and my understanding is that the civil servant says, well, they will be gone in a couple of years anyway, don't worry too much about them. Can they provide that leadership, or where does it come from?

Mr. BOWSER. I think if you select some of the right people into—in other words, if the administration has already now bought into reinventing the Government, they have got to select some of the executives at the presidential appointee level that understand this kind of modernization and technology.

Chairman ROTH. Where do we put them?

Mr. BOWSER. You could put them in as the deputy.

Chairman ROTH. Just put them in each of the agencies?

Mr. BOWSER. Yes. When Dave Packard became the deputy to Mel Laird, he understood weapons systems, and that is the kind

of person you need here if you are going to modernize these big departments.

Chairman ROTH. Do we have 24 Dave Packards?

Mr. BOWSHER. Yes, I think we do in this country; I really do.

Chairman ROTH. I do, too.

Mr. BOWSHER. Yes. The big thing is to get them to come in, and I think they are willing to come in. Then you have got the talent at the senior civil service level, and I think there is a lot of talent in the Government, but you have to also bring some in if you don't have it. That is what we did at GAO here. We have a few people from the outside that have greatly enhanced our capabilities, but 80 or 90 percent is the talent that was there that we have worked very hard to enhance and build the capacity. So, that is how you have got to go about.

Chairman ROTH. Let me ask you this. We sit up here a lot very critical of the "M" in OMB, that there is not much management.

Mr. BOWSHER. Yes.

Chairman ROTH. Should they be held accountable for bringing the information age to Government, or should we maybe take them out of OMB or create some kind of a consulting group of expertise that can go into these 24 agencies and really see whether or not they are—obviously, we can't pass a law telling them how to improve their process.

Now, some people say the way to do it is to bring pressure. I had one CEO tell me the way he brought about a lot of these changes in his company was he just reduced their budget, and he said there was a lot of unhappiness and grumbling, but lo and behold they found out how to do it.

How do you get the incentives, the pressure, or whatever, because you not only need the leadership, but you also have the problem of cooperation of employees at every level? Part of the problem—we might as well face it—is that we have many levels of bureaucracy that are no longer necessary, that once were necessary, perhaps, under the paper age, but today, once you have a data base and it is available to everybody simultaneously, are not necessary.

How do we get cooperation and the incentives, the pressure, to get the job done?

Mr. BOWSHER. Well, I think the pressure comes basically, as most of the companies will tell you—and I bet that CEO said, too, that there has got to be some kind of a sense of crisis that we have got to really modernize and we have got to reinvent ourselves and really do it well.

I think that the budget pressure here in the Government today has become real. In other words, I think people really recognize that we are coming down in size. Therefore, the agencies that are going to survive and prosper are the ones that are going to be able to reinvent themselves and deliver their services in a timely fashion and at less cost.

I think that once that message gets across, which I think is beginning to happen, then you start to get people more on the team, you might say, willing to change. If people have the sense that the budget money will be there year after year, whether we have good performance or not, then there is less of that crisis feeling, and

that was true in the private sector for many years in the United States, too. So you have got to get that in.

But to go back to your question on the "M" in OMB, I think "M" has to play the role. Some central group does have to display leadership. But I think as far as getting a consultant group together, I think you really need that at the agency level. If anything, I would put more of my emphasis on the individual 24 largest agencies.

Chairman ROTH. Well, the time is moving on. I want to thank all of you for being here today. We have barely scratched the surface, but I do think the information revolution is core to making Government provide better service.

Mr. BOWSHER. It is, absolutely.

Chairman ROTH. I think the real test of what we are going to do is when Government, like the private sector, is able to give immediate service and not drag it out over a period of months and weeks.

Well, thank you. We look forward to continuing to work with you on this matter. We appreciate your being here.

Mr. BOWSHER. Thank you, Mr. Chairman.

Chairman ROTH. Our next panel will consist of three witnesses, one from a leading information management company and two representing Federal agencies. We are very pleased to have with us today George Newstrom, a corporate vice president of EDS, Incorporated. He has been involved in numerous efforts around the globe using modern technology to achieve significant improvements in both business and government practices.

Our witnesses from the Defense Department, Cynthia Kendall, and the Health Care Financing Administration, Gary Kavanagh, have experienced both success and failure in applying modern information technology to their agencies.

I would ask each of the witnesses to please taken about 10 minutes to summarize their statements, and we will, of course, include their full statements in the record.

Mr. Newstrom, welcome, and I would like you to go first.

TESTIMONY OF GEORGE NEWSTROM,¹ CORPORATE VICE PRESIDENT, EDS CORPORATION

Mr. NEWSTROM. Thank you, Mr. Chairman. I want to thank you and your staff for the opportunity to be here today. I enjoyed the comments that were made earlier today by you and the other panel members. I enjoyed Senator Cohen's comment about the blind imitation of the past.

I was intrigued recently that someone said I was a model, or EDS was a model of what the industry should do, and I was very delighted at being called a model until I looked it up in the Webster's dictionary and discovered that a model, and I quote, is "a small replica of the real thing." I would like to talk about what the real thing is that we are trying to do rather than a small replica today.

EDS has operations across the United States and 35 countries around the world. We have customers in many different industries,

¹ The prepared statement of Mr. Newstrom appears on page 348.

including health care, banking, finance, transportation, retail, communications and, yes, indeed, government.

In order to remain competitive in the global marketplace, EDS has been at the forefront of efforts to use business process reengineering both for ourselves as well as for our customers. I feel that this experience may have some application to the Federal Government as well.

Management consultant Michael Hammer defines business process reengineering as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements in cost, quality, service, and speed." At EDS, we have modified this definition just a bit and referred to the concept as the fundamental rethinking and radical redesign of an enterprise's processes from a customer perspective.

In some ways, the label "reengineering" is unfortunate because it suggests small ways to modify current systems. In reality, in many cases the old processes should be totally discarded in order to start from a new beginning using a clean slate. I feel that all too often we in industry and managers in government proceed too timidly regarding reengineering when, instead, a fresh, new start is warranted that would lead to dramatic improvement being sought.

Organizations undergoing process reengineering must accept that no traditional practice is sacrosanct, and must be willing to rethink and change the way they operate. To achieve dramatic improvements in critical performance areas such as cost, quality, and time, an enterprise must be prepared to change its business practices, its definitions, its organizational structure, as well as its policies, measurement, and rewards system.

While many think that it is the workplace that is changing, I submit that the key element is not the workplace, but rather the mind set within that workplace. We have realized that merely investing in computer hardware and software to expedite the speed of accomplishing existing tasks is a foolhardy exercise, as I believe the Chairman has already said.

We strongly encourage our customers to first carefully understand the needs of their customers, then determine how best to deliver the new requirements. Then, and only then, will they be prepared to determine what particular technologies would best fulfill these requirements.

We have found several scenarios that tend to motivate organizations to seek business process reengineering: (1) Existing processes do not work, (2) leading performance indicators show negative trends, and (3) there is a need to gain a competitive edge or there is a desire to preempt a competitive response.

At EDS, we take some very basic steps to determine if business process reengineering is the best course of action to resolve a particular management challenge. Initially, we identify the key processes of the organization. We do this by linking the processes to the critical success factors of that organization. The decision to reengineer is based on the likelihood of achieving process improvement breakthroughs that would lead to at least a five-fold improvement in efficiency and effectiveness.

I heard a discussion earlier today about a percentage increase in efficiency and some other things. I use the number five-fold as a potential minimum acceptable standard. The five is not the critical element; it is the message behind an exponential change in increase versus an incremental change, and if we have time toward the end, I would like to get back into that.

If the application of information technology to process offers the likelihood of dramatic improvement, that is another indicator that reengineering should be undertaken. We also consider whether the organization is able, mentally as well as physically, to prepare to change employees' job assignments, job duties, practices, and reward systems. If so, the reengineering that would likely impact this area is possible.

A variety of organizations that we have dealt with have used business process reengineering to make dramatic improvements in efficiencies, service delivery, and the level of performance. They have discovered that the benefits of reengineering include: Break-through improvements in process efficiency; work performed where it makes sense from the perspective of the customer, partner, or supplier; increased employee teamwork and knowledge; more productive application of information technology as a process enabler; and the alignment of process improvement efforts with the vision of the organization.

EDS is a subsidiary of General Motors and we have found many opportunities for utilizing business process reengineering to help General Motors respond to changes such as market shifts, globalization, and increased competition. Together, EDS and General Motors have selected best-in-class systems, technologies, departmental organizations to help reengineering and consolidation efforts.

We have consolidated 150 finance redundant/overlapping systems into 3 standard systems. Within the personnel department at General Motors there were 60 payroll systems; they are now combined into one. We used process reengineering to implement warehousing and inventory systems and to eliminate redundant systems in health care. We have engineered the telecommunications infrastructure so that 100 separate voice and data networks were consolidated into one, EDS*NET, the world's largest privately-owned digital telecommunications network.

We have also used business process reengineering for our customers. The city of Chicago put out a request for proposal for a parking system, and at the outset the city of Chicago described their business problem as a lack of revenue collection on parking tickets, rather than asking for specific technology solutions.

The business of ticket-writing and administration has now been totally revamped. Technology was introduced that makes ticket-writing easier through hand-held devices, improves ticket readability by 100 percent, and administration that is focused on customer requirements was implemented. This approach has increased their collections from approximately 15 cents on the dollar written to over 65 cents on the dollar value of parking tickets, with the city's goal being over 80 percent. Better yet, citizen satisfaction and approval is at an all-time high.

Michael Hammer and James Champy, in *Reengineering the Corporation*, pointed out that Hallmark Corporation decided to reengineer not because of a crisis, but because of a preemptive competitive strike. As a result of business process reengineering, the firm has changed most aspects of its operation in order to dramatically reduce the time that elapses from identifying a new market trend to filling it with a card at the retailer's shelf. The reengineering was time-consuming, since each of Hallmark's 22,000 employees was involved in the activity of formulating, researching, developing consensus, and internalizing common business practices.

Too often, we have found that Federal agencies—and I believe this has been mentioned already—in a quest to better harness technology, seek specific information, products, services, rather than to address the overall business objective. Whether their search is for main frames, MIPs, lines, networks, LANs and WANs of today, this is the antithesis of what I am talking about today.

In the commercial sector, we are delivering solutions for the customers and solutions to the business problems. For example, how do you get a product to market quickly and as economically as possible? We must be able to translate this in solving the Government's problems in serving citizens.

We have found agencies that are now realizing savings that operate in the Information Age. For example, many U.S. Department of Defense reengineering efforts that did begin under the NPR have significant returns for the taxpayers. DOD is experimenting with a travel pilot, reducing a 17-step process to 4. When implemented, they expect to save over \$1 billion in 5 years. There are other examples within DOD. In civilian agencies, the U.S. Department of Agriculture is encouraging the use of electronic benefit transfer in the food stamps program for the delivery of benefits directly to the recipients.

The Information Technology Association of America supports these efforts and has arranged for senior executives from a wide cross-section of technology firms to share their views on this subject with the Department of Defense. Arrangements are being made at this time to assist civilian agencies to do the same thing.

Some of the pitfalls in reengineering efforts: We have found that if leaders are not committed to change, none will happen. More than 50 percent of all reengineering undertakings fail for this exact reason. In addition, entities contemplating the use of reengineering should not expect immediate results. In fact, the time invested in reengineering is significant.

Peter Drucker, considered to be the father of corporate restructuring, stresses the importance of ensuring that the full participation of all people from entry level to senior management is a key to the success of reengineering. It is my perception that the major obstacle in reaching our full potential is a sense of urgency and a lack of boldness in action.

I wish Senator Glenn were here so we could discuss the concept of boldness.

Those that don't change are just not left behind as they were in the past; they cease to exist. I would like to point out that of the Fortune 500 companies that were on the list in 1970, less than 30

percent of those exist today in the same form that they existed in 1970.

Retailers are not just increasing sales with kiosks in malls or through catalog sales; they are thinking in terms of selling directly to the consumers by the use of the Internet. Entertainment of all sorts—movies, sporting events, and news programs of your choice—will be coming to your home when you want them, not when someone else wants to schedule them. Why, then, should the U.S. Geological Survey spend time developing new ways to sell paper maps? Instead, why not use business process reengineering to replace paper map capabilities much like retailers and entertainers are thinking about right now?

I suggest that you in Congress use whatever means are available and at your disposal to encourage Federal agencies to boldly pursue the use of business process reengineering to rethink, reorganize, and retool for the 21st century. Such processes may actually result in accepting that some Government agencies have outlasted their vision or purpose or have been replaced by the market. I hope you will go to great lengths to publicize Federal efforts that are underway to move in this direction. In this area, there should be incentives granted to agencies that excel and disincentives for those that engage in foot-dragging.

According to Drucker, although substantial cost savings accrue from reengineered methods, they always emerge as a by-product. However, estimates that such savings could produce savings to eliminate the Federal deficit are possible. It is important to realize that business process reengineering can generate substantial savings, since the costs of the new procedures are instead of, not in addition to, the cost of the former way of doing things.

Perhaps there are ways that the private sector could more frequently enter into partnerships with Federal agencies in implementing business process reengineering. We hope that you will not think of firms much like EDS as technologists in the back room. Instead, think of firms like EDS and many others as full-fledged partners, sharing the rewards as well as the risks of these creative undertakings. In addition, Federal agencies can enter into either consultative or out-sourcing arrangements with the private sector to explore in detail the benefits of reengineering.

The Clinton administration's approach to reinventing Government is taking a definite step in the right direction. Chairman Roth, your plans for fundamentally redesigning the Federal Government are also most laudable. They indicate to all taxpayers that you are committed to seeing this process through over a long period of time and you will not be satisfied with half solutions.

Mr. Chairman, I have pointed out a picture of radical change that is engulfing us as quickly and as totally as the sunlight does in the morning. It is not just your children or your children's children that will benefit from these wonderful opportunities. It is you and I within our near lifetimes.

While you may have to deal with mundane issues like running the Government and departments and agencies, a sense of urgency is clear and it is obvious. It is your appetite for boldness in action that will be the preamble for the greatest novel yet to be written,

which I would entitle "Government of the People, by the People, and for the People."

I thank you for inviting me to speak today.

Chairman ROTH. Thank you. We will let the others testify and then open it up to questions.

Ms. Kendall, it is a pleasure to have you here.

TESTIMONY OF CYNTHIA KENDALL,¹ DEPUTY ASSISTANT SECRETARY OF DEFENSE FOR INFORMATION MANAGEMENT, DEPARTMENT OF DEFENSE

Ms. KENDALL. It is a pleasure for me to be here today, Mr. Chairman, to share with you some of DOD's success stories, as well as our lessons learned. Under the Corporate Information Management (CIM) program, we have numerous success stories in business process reengineering. Indeed, this morning, Ms. Donna Heivilin from the General Accounting Office talked about our successes in the medical logistics area and food services.

I would like to share three specific examples with the Committee today. The first one is in the area of medical evacuation and medical regulating. During Operation Desert Storm, the military services experienced problems with evacuating casualties and transferring them to the most appropriate hospital. Over 60 percent of the patients arrived from the combat zone at an en route transportation and medical care hub that was not necessarily the best one for their particular injury. We must treat our service members better than this.

Recognizing that problem, our top leadership from the Joint Staff, the Office of the Secretary of Defense, and the Commander in Chief for the Transportation Command decided to take a look at this area from a viewpoint of business process reengineering.

We undertook a process. A number of the findings we had were that we had repetitive and duplicative systems supporting this area. We had different practices in peace time and war time. We could not track our patients by name as well as we would like to, and we had a problem with a lack of communication to work this area.

Based on that business process reengineering, a number of recommendations were made and, at this stage, many have been implemented. First and foremost was an organizational change. One of the problems was that the responsibility for medical evacuation was with the Transportation Command, and the responsibility for the medical regulating, or assigning our service members to a hospital bed, was under a different area, or multiple areas. So the process of transferring our patients to the right place became very difficult. We said we were going to reorganize and put all of that under one command, the Transportation Command. That change has been made and it is signed in a DOD directive.

Another important aspect of this reengineering is to improve our communications abilities, to make the information available to the decisionmakers so that we can move our patients where they should be moved. We are using automation to do this. We have a prototype up today to do this activity. Through this prototype, we

¹The prepared statement of Mr. Kendall appears on page 359.

will have improved visibility of our patients, our aircraft, and the hospitals that we need by specialty. We will also have improved, in-transit visibility of our patients and the medical equipment needed for their transportation.

Now, some of the benefits are clearly discernible from this process. We will minimize our transportation requirements and maximize our patient care. We are going to provide in-transit visibility of our patients and of our medical equipment. But interestingly enough, while our goals were to improve the service to our military members, we had some side benefits. One of those is, as we looked at the economic analysis for this process, we found that we will reduce the cost of tracking our patients through the combat theaters from \$111 to \$28 per patient. But probably the best example of the benefit was the one given when the project leader briefed the deputy secretary, and said that we could save lives with this improved process.

Let me now move on to my second example, which is more administrative in nature and involves the Defense Investigative Service. The Defense Investigative Service processes nearly a million personnel security actions each year. These actions affect our DOD civilians and our military, as well as our industry contractors.

One of the goals of this business process reengineering project was to significantly reduce the cycle time necessary to complete investigations, thus avoiding unproductive time by contractors and DOD employees who are awaiting their security clearances to perform their jobs. We found that our existing process is paper-intensive and very cumbersome.

We also identified improvements to the existing process that could be made immediately. One of the real major improvements that was identified was the use of automation to deal with our personnel security questionnaires. Through the use of automation, we could provide for electronic capture and transmission and use of the personnel security history data within the Defense Investigative Service and throughout the Department. By using the technology, we could reduce data entry errors and processing time requirements.

It only takes a small investment, in this case, approximately \$6 million, and we believe, as we have demonstrated through an economic analysis, that we will have a cost avoidance of nearly \$1 billion over the next 6 years. In addition, it is anticipated that the cycle times for our Defense Investigative Service personnel security investigations will be reduced from 145 days to 120 days.

The last example I would like to share with the Committee involves the use of a Multi-technology Automated Reader Card, or MARC. This is an identification card that has a micro chip on it for storing information that can be read and have information added to the card.

We have been conducting tests with this card. Recently the Army's 25th Infantry Division used the MARC to support a deployment of the division personnel to Haiti. The MARC was used to create and validate aircraft manifest rosters. In our test, the time required to produce the manifest was reduced from over 4 hours down to 20 minutes. In addition, the number of personnel involved in the manifesting process was reduced from 15 people to 7. Now,

mind you, this is in the testing mode at this time. We are also looking at other opportunities for making use of this MARC technology throughout the Department.

I would like to say a few words about lessons learned from our business processing reengineering activities in the Department. We feel the most critical lesson learned is creating a sense of urgency, and indeed, that is one of the first things that GAO had identified as a need in business process reengineering. What we mean by that is that people need to understand, and accept, that there is a need for change or they won't become partners to the change process.

We have also learned that successful reengineering efforts have several attributes in common. We need top management involvement and commitment. We need to focus on stretch goals. We need our line management commitment to implementation. This, again, is another area GAO emphasized. We need to focus on some core processes. These key attributes are consistent with several of the recent GAO reports that have come out looking at reengineering organizations, and best uses of information technology.

Mr. Chairman, I have described a small sample of our reengineering projects, and I am sure you can recognize the significant results that have been, and will be, achieved. We feel we have no choice but to move forward. Reengineering is an essential strategy to get there. Moving back is not an option and we sincerely appreciate the Committee's support in the areas of reinventing Government.

Chairman ROTH. Thank you, Ms. Kendall.

Mr. Kavanagh.

TESTIMONY OF GARY KAVANAGH,¹ DEPUTY DIRECTOR, BUREAU OF PROGRAM OPERATIONS, HEALTH CARE FINANCING ADMINISTRATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES; ACCOMPANIED BY DR. ARON PRIMACK, MEDICAL OFFICER, BUREAU OF PROGRAM OPERATIONS, HEALTH CARE FINANCING ADMINISTRATION, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. KAVANAGH. Thank you, Mr. Chairman. I am pleased to be here today to discuss the Health Care Financing Administration's efforts in reengineering its operations to better meet the needs of Medicare beneficiaries, providers, and suppliers. Accompanying me today is Dr. Aron Primack, the medical officer in the Bureau of Program Operations.

Medicare serves over 36 million beneficiaries and processes over 700 million claims per year. In order to review, process, and pay these claims, Medicare contracts with private insurance companies, known as fiscal intermediaries and carriers. The 34 carriers deal with claims from physicians and other Medicare Part B items and services.

Until recently, these carriers dealt with claims for durable medical equipment, prosthetics, orthotics, and supplies. Several years ago, however, in listening to the needs of Medicare providers, suppliers, and beneficiaries, HCFA identified significant problems with our procedures for processing claims for durable medical equip-

¹ The prepared statement of Mr. Kavanagh appears on page 372.

ment, what we often call DME, and related items, and those same sources have helped to provide successful solutions.

I would like to acknowledge that in reengineering the way our carriers do business for DME claims, we are using current technology and applying it in a new and dynamic approach. By redesigning our processes, we are able to significantly improve the way we serve our customers. We believe we can draw on the lessons of this success as we reengineer other areas of Medicare administration.

In 1991, we began looking systematically at the way we process claims for DME. In consultation with our customers and partners, we heard that we needed to focus more on customer service, to establish more uniform requirements for claims submission and adjudication, and to do a better job of preventing improper payments.

Prior to 1993, suppliers of DME submitted their claims to one of 34 different carriers for processing and payment. DME suppliers and beneficiaries often complained of slow payments and poor service on their inquiries. Carrier coverage policies and decisions for durable medical equipment items often varied considerably from carrier to carrier across the country.

In a number of instances, suppliers sought out the carrier with the least restrictive coverage policies and submitted their claims to them, a practice referred to as carrier-shopping. As a result, DME claims are often open to fraud and abuse.

Electronic claims submission requirements also differed among carriers, which required suppliers to submit their claims in different formats. In addition, HCFA had no single focus to accumulate and analyze DME claims information to help improve program management.

We also discovered that some suppliers used multiple billing numbers. We found that suppliers could easily obtain multiple supplier numbers and that we lacked specific and uniform standards for obtaining a supplier number. Using multiple numbers, suppliers who were subject to review under one number could easily reenter the system under another without our knowing it.

In partnership with suppliers, providers, and Medicare beneficiaries, HCFA sought to make more creative use of current technology in reengineering the business processes then in place. We concluded that we should concentrate all processing for equipment and supplies in a small number of specialized carriers. We believed that use of a few regional carriers would greatly reduce the variability in coverage policy and medical review practices among the carriers. Greater efficiency would be achieved because each carrier would have a trained pool of experienced personnel able to handle DME claims more effectively and to process claims more quickly and accurately.

Starting in the fall of 1993, HCFA began to consolidate processing for durable medical equipment into four regional carriers, or what we call DMERCs. This consolidation also allowed for standardized submission of electronic claims. All suppliers are now able to use a single format to submit their claims to Medicare.

Through these four carriers, we have achieved greater efficiency not only in the processing of claims, but in the development and application of coverage policy and medical review. In addition, one

of the regional carriers has an extra function to conduct statistical analysis of data for all four regional carriers. This statistical analysis DMERC examines profiles of claims activity and scrutinizes potential overutilization by certain suppliers by comparing them to both regional and national peers. This arrangement provides a quick and efficient way to detect aberrances that could not have been discovered in the past.

To solve the problem of carrier-shopping, we revised our carrier jurisdiction of Medicare claims. Previously, claims for DME were paid based on the location of the billing office. Beginning in the fall of 1993, suppliers were required to submit their claims to the regional carrier responsible for the geographic area where the beneficiary resides.

HCFA has also moved to eliminate the use of multiple billing numbers. Starting in October 1993, we established a new supplier number application process for our approximately 120,000 DME suppliers through a National Supplier Clearinghouse. This clearinghouse maintains a national file on DME suppliers. This tool enables us to reliably identify abusive suppliers who attempt to mask their identities by using different names.

Through these steps, HCFA has been able to ensure more appropriate and consistent payment of DME claims nationwide. By consolidating our operations, utilizing knowledgeable personnel, and using cost-effective technology, we have created a more efficient and manageable claims processing system.

The lessons learned during the regional carrier consolidation have been invaluable as we plan for other improvements in the Medicare program. The knowledge we have gained will make future reengineering efforts smoother for our beneficiaries and providers.

As we look toward the 21st century, Medicare is now working on the design of a single national automated claims system to process all types of claims more efficiently. The Medicare Transaction System, or MTS, is scheduled to begin operations in late 1997 and will be completed by late 1999.

Presently, our claims processing is done by 77 fiscal intermediaries and carriers using 11 automated systems at 62 different sites. Under the Medicare Transaction System, claims processing will be performed at a limited number of operating sites using a single system.

When MTS is fully implemented, administrative savings should be significant. Processing claims will be done by a single automated system that is accessible to all carriers, providers, and suppliers. Efficiencies will be achieved by consolidation and better management of data, as well as better ability to monitor and detect fraud and abuse.

The MTS will enable Medicare contractors to provide more timely, accurate, and complete responses to beneficiary inquiries. One of the major benefits will be that a single inquiry to any contractor will provide the status of all of a beneficiary's claims.

The lessons learned from the durable medical equipment transition are fresh in our minds as we proceed to implement the Medicare Transactions System. We will be working closely with our con-

tractors, providers, and beneficiaries to assure that this new system will be beneficial to those we serve.

HCFA is committed to continuous improvement. We have recently developed our first strategic plan to guide the agency's improvement activities. This plan calls on us to systematically review our business practices and revise them where necessary. We look forward to working with the Committee on these and related issues.

Thank you, Mr. Chairman.

Chairman ROTH. Thank you, Mr. Kavanagh. I have heard from people back home very favorably about some of these reforms.

Mr. Newstrom—in fact, all three of you—have heard me talk about the contrast between Government service, Federal service to its constituents as customers, and that of the private sector. Do you think information technology can substantially improve Government service at a smaller cost and in a more timely way? What do you see as the opportunity here?

Mr. NEWSTROM. Well, I hope that you understand that Electronic Data Systems—as a technology company, it would be very easy for me to say, absolutely, if you just buy another pound of technology, we are going to make it wonderful for you.

Chairman ROTH. That is correct.

Mr. NEWSTROM. I am not going to say that. The entire emphasis of what the speakers have said this morning, the writing that has been done, the things that you have done, suggest very strongly that technology will be an enabler for what this chart depicts, for what the business is going to do. It can be Government, as well as a private industry like us.

What is the business that we are talking about? Is it one of the 24 agencies? Is it the State Department? Is it a city or a county entity? What is that entity's function? Once you define that function from whom you serve, the citizen at the other end, then you can apply whatever techniques are necessary, whatever process changes are needed. In many cases technology can help, but I am not suggesting that technology is the only solution to making it work.

One of the questions that you asked earlier was what is the goal. There was a point made about a 151-day cycle time for a claim, and I don't know what the claim was. I don't know what the answer to that question is, but I would start by saying the time frame is zero; it is real time.

Let someone explain what the rationale for exceptions are rather than state that it can only be done in 6 months or it can only be done in 30 days, etc. Private industry is looking at the real-time delivery of service, whether it is retailing, entertainment, or anything else, and then work the exceptions from there. I don't know if it is achievable in the example that we talked about, but we are processing health care claims across the country in a real-time fashion today where years ago we never thought that was a capability that we had as a country. That is happening today.

Chairman ROTH. Would either of you—

Ms. KENDALL. I would certainly endorse what Mr. Newstrom has said in terms of technology being an enabler. In many of our business process reengineering activities, we find changes and improve-

ments that have nothing to do with the technology and they can really improve the way we are doing things.

Chairman ROTH. Isn't that the criticism that too many have purchased the technology just to have it rather than to, as you say, be an enabler?

Ms. KENDALL. We need to think about what we want to achieve and then see how the technology can be applied. There are many times that technology, as an enabler, helps move further and make more improvements in an area. We like, however, to really focus first on asking ourselves what is it we are trying to accomplish.

Chairman ROTH. What is the mission?

Ms. KENDALL. Right.

Mr. KAVANAGH. I think from our perspective I remember 10 years ago or 15 years ago when I was in the Government, we used to sit around in a room in Medicare and figure out with our contractors what the performance expectations should be for the Medicare program, and that was very insulating and it was certainly easy to say, well, we can't do this in that many days or we can't answer an inquiry immediately.

We have changed that dramatically. What we do now is we go out and reach out to beneficiaries and to providers that we serve and ask them what are their expectations, what are their needs, and that is what we are trying to do in trying to meet those expectations and we use information technology as a tool to be able to do that.

Chairman ROTH. EDS, of course, has had extensive experience in providing information technology solutions in government. I wonder if you could make some comments on the following. What characteristics do successful implementing and managing information technology systems have in common?

Mr. NEWSTROM. Mr. Chairman, there are a couple I would point out. I think they have been discussed, or at least deliberated a little bit already this morning. The first and the foremost is an understanding of what it is you are trying to do, and the introduction or the continuation of technology for technology's sake is not an answer to your question. I think we have already been over that.

The second one is an understanding from the top of the organization all the way to the bottom of the organization of what it is we are attempting to do, what it is we are trying to do. You cannot legislate and I cannot dictate in a corporate environment that 70,000 EDS employees are going to do something. There has to be a buy-in for the betterment of the corporation as well as the individuals involved.

Thirdly, and this is perhaps where the differences between government and private industries are the most obvious, you have revenues and you have expenses; so do I. The difference between those two in the case of a corporate sense is profits or losses. I have something called stockholders. They vote with their feet. If we don't produce for them, they go somewhere else.

There is a notion in this country that the same thing exists in government today, but we are not reacting to it as quickly as we should. Perhaps, and Ms. Kendall said this, the crisis is there if we just identify it and work toward solving it. If that is not done, we

are going to be left behind in an agency as well as companies. But those are the three things that I would focus on.

Chairman ROTH. Ms. Kendall.

Ms. KENDALL. I would talk about the one I think is key, and that is a top-level management commitment to make these changes.

Chairman ROTH. Who would that be? I mean, obviously, you want everybody to be supportive, but who in the Department of Defense heads up this effort?

Ms. KENDALL. Within the Department of Defense, clearly we have top-management support from the Secretary and the Deputy Secretary, but we are a very large organization and there are a lot of top-level management people involved. Our specific CIM policy assigns responsibility for business process reengineering to the principal staff assistants to the Secretary—precisely, the Under Secretaries of Defense, the Assistant Secretaries of Defense, and the Joint Staff.

I would also say that because DOD is so large, there are other leaders throughout the Department. For example, commanders or directors of large organizations who, as top management of that organization, can take on the lead to make some changes within their organization. We applaud all efforts and all levels in the department to accomplish any business process reengineering.

Chairman ROTH. Part of the problem is the size of Government. As you say, the Department of Defense is so huge. How do you make certain that progress is being made in all operations? You have got the Army, you have got the Navy, you have got the Air Force, you have got the Marines. How do you provide the incentives?

For example, it is said in procurement that you have got 17, 18 levels of bureaucracy because of in the old days of shuffling papers around. That is no longer necessary. A substantial savings can be made. How do we get the cooperation of those people who may be seeing their own jobs disappear?

Ms. KENDALL. Well, I would like to say that in the Department of Defense probably we have a unique motivation, and that is that our soldiers, sailors, airmen and Marines have their lives on the line. I talked about the medical regulating. Certainly, there is a real effort to make improvements in that area.

I would say we have another motivator, and that is over the last 10 years the Department of Defense's budget has rapidly declined. So, again, we have a real incentive to accomplish our missions with reduced dollars. As Mr. Newstrom said, it is very important to get the line managers involved and have their buy-in to make these changes happen. These people are trying to, and genuinely do usually want to make things work smoother and better. I think there is a lot of self-motivation throughout.

Chairman ROTH. Mr. Kavanagh, were there any human resource or personnel issues you had to overcome? How extensive was the training provided to the employees who would be working in the new system, and did you have training requirements for the four carriers to ensure proper implementation?

Mr. KAVANAGH. Yes, we did, Mr. Chairman. The real personnel issues were at the four regional carriers that we contracted with that performed the function of processing and paying durable medi-

cal equipment claims. Once those contracts were awarded, they were responsible for hiring staff and then training those staff, certainly, in the new systems that they had established, the electronic claims process, and then more specialized courses for individual employees on coding or review processes.

We also had extensive training of the supplier community. They actually developed a manual and went around in each State and had extensive training of individual suppliers at seminars around the State to educate them about the new procedures and processes.

Chairman ROTH. I would be interested in who in the HCFA staff did you involve in the reengineering. By that I mean did your working group include non-supervisory employees as well as managers? How did you decide on or choose the team who would redesign the process and system?

Mr. KAVANAGH. It absolutely included non-supervisory employees. In fact, the team that was put together was really a cross-functional team of various parts of the Health Care Financing Administration, including the policy component, the operations component, and our regional offices that were involved in working directly with the contractors.

I would say that, you know, the initial decision to go to the regional carriers was certainly something that had top support in our organization, but once that decision was made, most of the decisionmaking was made at very low levels in the organization because those people were empowered and understood what direction we were trying to go in serving beneficiaries and making sure that Medicare dollars were spent appropriately.

Chairman ROTH. Let me ask you the other side of the question. How high up the organization ladder was the involvement?

Mr. KAVANAGH. There was certainly involvement of the—initially, the Secretary approved this regionalization, and certainly the administrator was kept up to date on an ongoing basis. But once the initial decision was made to reengineer, I guess the responsibility and the accountability was really at the bureau director level.

Chairman ROTH. How did this whole process become instituted?

Mr. KAVANAGH. The process began—really, we listened at concerns. We looked at correspondence. We had meetings with supplier organizations, beneficiary organizations. We certainly got a number of consultations and reports from our inspector general and the General Accounting Office about concerns that they had about the durable medical equipment benefit, and we came up with a process for reengineering what we were doing in durable medical equipment.

Chairman ROTH. Let me ask you this. Were there any statutory, regulatory problems, barriers, to designing and implementing the new system?

Mr. KAVANAGH. There really weren't any barriers to designing the system. We did write a regulation to change the jurisdiction of claims and a regulation to require all suppliers to meet certain requirements, to get a supplier number. One thing that we are still interested in doing and haven't accomplished yet is we would like to move home health agency durable medical equipment claims to

these regional carriers because we think it would be more efficient, and we do need a statutory change to do that.

Chairman ROTH. Ms. Kendall, the migration strategy and the Defense Department's Corporate Information Management initiative appears to be a way to standardize the Defense Department in line with one DOD organization existing approach. We understand that the department is currently evaluating all existing Defense information management systems in order to identify the best of these as a standard. What assurances do we have that any of these systems will effectively support the reengineered processes?

Ms. KENDALL. If you will, we have two tacks. One is looking at business process reengineering. The migration systems are looking at our existing processes in place. We are looking at improvements in the cost of maintaining these multiple systems, as well as looking at ways where one system may provide more advantages over another. If we use one instead of many, we may bring in some improved practices in other areas.

We are looking to the leadership in each of the functional areas to make those decisions on how to proceed. For example, in the financial area the Comptroller is leading the efforts to decide what is the best way to proceed with respect to migration systems, as well as making changes in the way they do business. As we make the migration system decisions, we do document those or validate those decisions with a functional economic analysis to show that we are making improvements and saving dollars as we proceed.

Chairman ROTH. A lot of talk has been made about the need of having cooperation from all the employees. Has that been a problem in the Department of Defense? Is there fear that the changes will mean their jobs?

Ms. KENDALL. Absolutely. There are jobs on the line. There are people who are being separated from the Department of Defense and we know that is going to happen. We do have to work very hard to mitigate the concerns and the impact on our employees as we do downsizing.

I can share with you an example that we have had in the Defense Information Systems Agency where we have had a fair amount of downsizing associated with our consolidation of data processing centers. They worked very hard to be very open with the employees about what was happening and when it was going to happen. They worked with the employees and the local communities to work on job placement either within the local community or other places in the Department. But you are right, sir, that is a very difficult issue dealing with employees worried about losing their jobs.

Chairman ROTH. Mr. Newstrom, do you have any suggestions of how to deal with that problem?

Mr. NEWSTROM. I certainly can't hire them all. [Laughter.]

There are a couple of things that come to mind. First of all, this is not a government issue. This is an issue that private industry, as well as government, deals with. As we go through restructuring, as we go through the redefinition of how we do our business, there are going to be a lot of people displaced.

As you drive home tonight, most every one of us will pass a store that has a blue sign with yellow lettering, and it is Blockbuster Video. Those employees do not have a career in the way they have it today. They will not rent videotapes any longer. I suggest there are some employees that sit in DOD, I suggest there are some employees that sit within HCFA and there are employees in EDS that are doing "Blockbuster-type" activities today that are gone in the future.

Our challenge as a company, and I suggest the challenge of Government is to take the skill sets that are there, apply them where they are applicable, then take the workforce, take the people who are there and apply them to the new ways of doing business. I am not suggesting that there won't be some casualties in this whole thing. For us to be competitive in the future, some will occur, but the resources that are there need to be retrained and reskilled to the processes that will continue to make us grow as a corporation, as well as the things that are being done in Government.

Chairman ROTH. Well, we all hope that the impact can be handled in a compassionate way through attrition, of course, and possibly buyouts or early-outs, but I think that is a major problem.

Let me just ask you one more question, Ms. Kendall. The GAO reported to me in early January that the Defense Department Corporate Information Management initiative is at risk of wasting several billion dollars per year because there is very little focus on reforming key management processes.

What steps has the Pentagon leadership taken to ensure that the Defense Department is not just buying computers to automate existing processes? That seems to be one of the general complaints.

Ms. KENDALL. Well, let me start from the top in terms of our recent CIM strategic plan that was signed by the Deputy Secretary last June. We wanted to start from the top and say here is our strategic plan. We are now going out to the functional areas. My boss just recently signed a letter asking for strategic plans in those functional areas. Again, this is driving toward what it is we are trying to accomplish in those individual mission areas. Ultimately, we can ensure the technology is supportive of those broad top-level goals.

The other area where we make sure that we are not wasting dollars on information technology, is we have a very stringent oversight process in the Department of Defense for reviewing automation systems as they go through individual milestones. We are continuing to use that process of oversight.

Chairman ROTH. Well, I want to thank each and every one of you for being here today. It is extremely helpful. We will be interested in any further suggestions or recommendations you may have as to how we can better utilize modern technology as an enabler. Thank you very much.

The record will be held open for further questions for 2 days.

The Committee is adjourned.

[Whereupon, at 11:41 a.m., the Committee was adjourned.]

A P P E N D I X

GAO

United States General Accounting Office

Testimony

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United States Senate

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LOW-INCOME FAMILIES

Comparison of Incomes of AFDC and Working Poor Families

Statement of Jane L. Ross, Director,
Income Security Issues
Health, Education, and Human Services Division



Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our comparison of the incomes and poverty status of Aid to Families with Dependent Children (AFDC) female-headed families and working poor families.

In recent years a rapid growth in welfare caseloads, concerns about program costs and beneficiaries' long-term welfare dependence, and dissatisfaction with current programs have again focused attention on the nation's welfare system. The debate centers on AFDC, which provides cash benefits to economically needy families with children. AFDC caseloads rose dramatically beginning in 1989; in 1993 nearly 5 million families were receiving over \$22.3 billion worth of AFDC benefits. AFDC families also may be receiving other types of government assistance, including Medicaid and food stamps. AFDC families received an estimated \$49.6 billion worth of benefits from these three programs in 1993.

Our testimony today will focus on four major points: (1) the range of benefits that AFDC and working poor families receive, (2) AFDC families' incomes and poverty status, (3) how AFDC families' incomes compare with those of working poor families not on AFDC, and (4) how work-related supports may help AFDC families transition from welfare to work.

In summary, we found that the incomes of AFDC families who also received benefits, such as food stamps and Medicaid, were quite similar to the incomes of families with earnings close to the minimum wage. In addition, we found that the incomes of most families in both groups fell below the poverty line.

The information we are presenting today is based on data from a national household survey, the Census Bureau's March 1994 Current Population Survey (CPS). The CPS provides information not only on families' earned incomes and cash assistance but also has cash equivalents for the following benefits provided to eligible low-income people: Medicaid, food stamps, housing assistance,¹ and school lunches. We included these four benefits in our analyses. For ease of comparison, we focused our analyses on female-headed families with two children, the most common family type receiving AFDC.

LOW-INCOME FAMILIES' BENEFITS VARY WIDELY

The AFDC program is jointly funded by the federal government and the states. Federal funds pay from 50 to 80 percent of AFDC benefit costs and 50 percent of administrative costs. The states define benefit need, set their own benefit levels, establish (within federal limitations) income and resource limits, and

¹The Census Bureau calculates cash equivalents for both public housing and Section 8 rental assistance.

administer the program. As a result, AFDC monthly benefits vary among states--from Mississippi, where a family of three received \$120 as of January 1994, to Alaska, where the monthly benefit totaled \$923. Moreover, AFDC benefits generally increase with family size.

To be eligible for AFDC benefits, recipients must generally have monthly family incomes that are well below the poverty line.² For example, the poverty threshold for a family of three is \$1,027 in monthly income; many states have income eligibility cutoffs that are less than half that amount.

AFDC families may also be eligible for noncash benefits, such as housing assistance and food stamps. The value of such noncash assistance generally does not count in determining AFDC eligibility. However, the Food Stamp Program does consider AFDC payments to be countable income, and reduces the food stamp benefit by .30¢ for each \$1 of countable cash income.

AFDC Families More Likely to Receive Certain Noncash Benefits

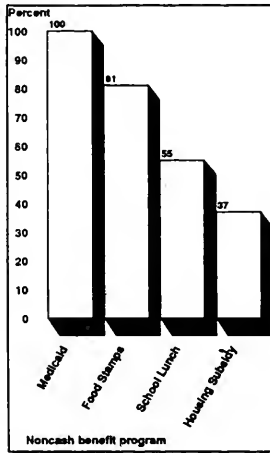
Most AFDC families receive noncash assistance from at least one program. However, the extent to which they participate in these programs may vary. For example, AFDC families are automatically eligible for Medicaid. As with AFDC, states design and administer their Medicaid programs within federal guidelines. As a result, the types and scope of benefits offered, and the amounts paid for services, vary considerably from state to state. The Food Stamp Program, on the other hand, is fully federally funded and has uniform program rules in the contiguous 48 states;³ a three-person family with comparable income generally receives the same level of assistance nationwide. Most AFDC families qualify for and receive food stamps.

AFDC, Medicaid, and food stamps are entitlements--everyone who qualifies and applies for assistance receives it. In contrast, funding for housing assistance, another low-income benefit, is limited. Moreover, housing assistance is not equally available in all parts of the country or even within some states. As figure 1 shows, only about 37 percent of AFDC families reported receiving housing assistance in 1993.

²Under the official definition of poverty, a family is considered to be living in poverty if its annual cash income is below the threshold believed necessary for that family to purchase a minimum standard of living. Under this definition, cash income includes pretax earnings and government cash transfers, such as AFDC benefits, but excludes the value of noncash benefits.

³Food stamp benefits are higher in Alaska and Hawaii.

Figure 1: AFDC Families Participating in Noncash Benefit Programs (1993)



All families are shown as participating in Medicaid because of their automatic eligibility, although not all may receive medical care in a given month.

AFDC families included are female-headed with two children.

Source: March CPS, 1994.

Some AFDC Families Have Earned Income

AFDC program rules allow recipients to work and earn income; however, AFDC benefits are gradually reduced and ultimately eliminated as recipients' earnings increase. While most AFDC families report no earnings, some AFDC family heads do work while receiving welfare. About 6 percent of women worked while receiving AFDC, according to 1992 AFDC administrative data. These data may understate workforce participation, because studies have suggested that AFDC recipients may underreport occasional or irregular work while receiving AFDC benefits because reporting earnings may lower or cause them to lose AFDC benefits. Using a different measure, CPS data showed a higher proportion of women working--38 percent in 1993. However, CPS data measure women who received AFDC at any

time during 1993 and who also worked sometime during that year.⁴ This measure, thus, includes women who may have worked part of the year and received AFDC only when they were not working.

Working Poor Families May Receive Some Public Assistance

The working poor families in our analysis⁵ were not receiving AFDC benefits. However, such families may be eligible for and receiving other types of assistance. For example, a three-person family could have a gross monthly income over \$1,200 and be eligible for a small food stamp benefit.⁶ The same family could have a monthly income as high as \$3,000 and still receive housing assistance. Of the working poor families we studied, about 22 percent received food stamps, and about 12 percent received housing assistance.⁷

Low-income families with earnings, including AFDC families, are also eligible for the Earned Income Tax Credit (EITC). This refundable tax credit was recently expanded to make the credit more generous for low-income workers. When the expanded provisions are fully implemented in 1996, a parent with two children who earns \$8,900 annually--an income just slightly above the minimum wage--would receive the maximum credit of \$3,560. This credit would be reduced beginning with an income of \$11,620 and fully phased out at a \$28,524 income.

MOST AFDC FAMILIES' INCOMES AND BENEFITS ARE BELOW THE POVERTY LINE

Developing dollar estimates of AFDC families' incomes that include noncash benefits requires obtaining cash equivalents for these benefits. However, cash equivalents are more readily available and more widely accepted for some forms of noncash assistance than others. Attaching a dollar value to Medicaid benefits is especially complex and controversial.

⁴CPS data measure whether women receiving AFDC for all or some part of a given year worked at any point during that year.

⁵For this analysis, we defined working poor as non-AFDC female-headed families of three, in which the family head worked full time for a full year and earned up to 1-1/4 times the minimum wage or \$921 per month.

⁶An eligible family of three could receive as little as \$2 and as much as about \$80 per month.

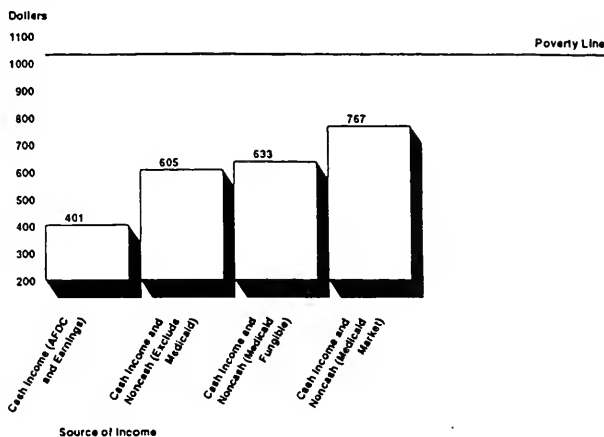
⁷Sampling errors at the 95-percent confidence level are about plus or minus 12 percentage points for food stamps and about plus or minus 9 percentage points for housing assistance.

AFDC Families' Median Income, Excluding Medicaid,
Is Well Below Poverty Line

To separately demonstrate the effects of cash and noncash assistance on family incomes, we developed median income and relative poverty measures both excluding and including noncash assistance. Accounting only for cash assistance and earnings,⁸ AFDC families' median monthly income in 1993 was only \$401--well below the poverty threshold of \$1,027 for a family of three. Using this measure, nearly two-thirds of the AFDC families were below 50 percent of the poverty line. Including noncash benefits (except Medicaid) raised their median monthly income 50 percent, to \$605. However, most families' incomes remained well below the poverty line.

⁸Earnings include salary and wages, self-employment earnings, and farm income. We added the EITC in our earnings measure and subtracted Social Security payroll taxes. The Census Bureau computes EITC amounts for low-income families; the CPS does not contain information on the numbers of families actually receiving this credit.

Figure 2: AFDC Families Median Monthly Incomes Relative to the Poverty Line (1993)



The EITC minus Social Security taxes is included in earnings.

Noncash benefits include food stamps, school lunches, and housing subsidies.

AFDC families included are female-headed with two children.

Source: March CPS, 1994.

Including Medicaid Benefits in Family Income Is Controversial

Including a value for Medicaid benefits in family income is controversial because no commonly accepted valuation method exists. Moreover, many experts argue that counting the value of medical care as if it were income can be misleading.⁹ For these reasons,

⁹Some researchers argue that, unlike food and housing needs, the health needs of families in comparable circumstances vary enormously depending on the health status of household members.

we have presented median income estimates excluding Medicaid. However, to show the possible effects of Medicaid benefits on family income, we are also presenting estimates that include Medicaid.

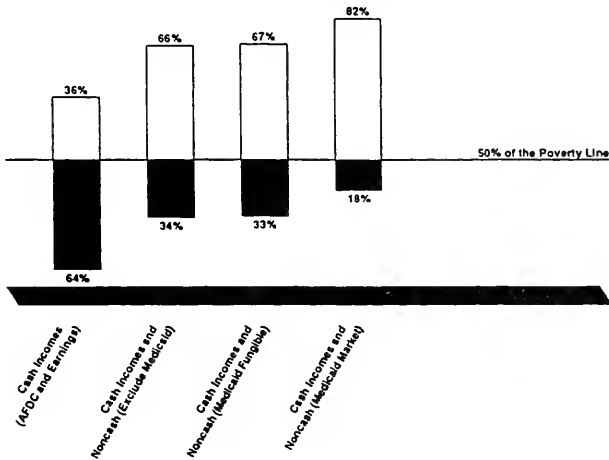
We used two different valuation approaches for Medicaid--fungible¹⁰ and market value;¹¹ the Census Bureau has adopted the fungible value approach. Adding Medicaid benefits increased AFDC families' median incomes to \$633 (fungible) or \$767 (market). While \$767 is nearly double the median income we estimated for earnings and cash assistance alone, this income is still well below the poverty line.

Moreover, because medical care prices are so high, some families who are eligible for Medicaid could theoretically receive resources above the poverty line in medical benefits alone.

¹⁰The fungible value approach counts Medicaid benefits as income only to the extent that they free up resources that could have been spent on medical care. For example, if family income is not sufficient to cover the family's basic food and housing requirements, the fungible value methodology treats Medicaid as having no income value.

¹¹The market value is calculated by dividing actual expenditures by the number of people enrolled in a given risk class.

Figure 3: AFDC Families With Incomes Below 50 Percent of Poverty Line (1993)



AFDC families included are female-headed with two children.

Source: March CPS, 1994.

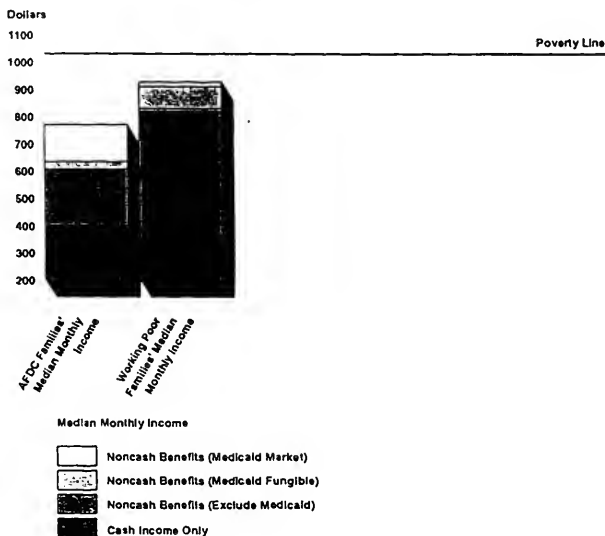
WORKING POOR FAMILIES ARE LITTLE BETTER THAN AFDC FAMILIES

To determine whether working poor families not receiving AFDC had higher incomes than AFDC families, we analyzed the income and noncash benefits a working poor family receives. Although working poor families with full time, full year earnings up to 1-1/4 times the minimum wage--\$921 a month--did have higher median incomes than AFDC families, many were still below the poverty line. Moreover, our analysis did not include work-related expenses, such as child care, which could be significant for these families. Accounting for these expenses could possibly increase the number of working poor families that could be financially worse off than some AFDC families.

As we noted earlier, some working poor families also received noncash public assistance such as food stamps. We estimated their

median incomes both excluding and including these benefits, as we did for AFDC families. Using earned income only, working poor families' median monthly income was \$819--about \$50 higher than the highest estimate of AFDC families' income. When noncash benefits, including health benefits, were added, these families' median monthly income rose to \$926 per month. As figure 4 shows, working poor families' median monthly income was nearly \$160 higher than that of AFDC families when noncash assistance was included. Even with these benefits added, over 70 percent of working poor families had incomes below the poverty line.

Figure 4: Comparison of AFDC and Working Poor Families' Median Monthly Income (1993)



Cash income includes the EITC minus Social Security taxes.

For working poor families, the employer contribution to health insurance was included along with the Medicaid values.

AFDC families included are female-headed with two children.

Source: March CPS, 1994.

Work-Related Expenses May Be Significant

While working poor families had a median monthly income higher than AFDC families', working poor families may incur significant work-related expenses. These expenses may adversely impact their ability to stay employed. In taking paid employment, workers often incur additional expenses, such as the costs of tools or uniforms, travel to their workplaces, or paid child care. For example, child care costs can be a significant portion of low-income working families' budgets. Working poor families with child care costs spent on average \$260 a month for child care in 1991, according to a Census Bureau survey.

WORK-RELATED SUPPORTS MAY HELP TRANSITION FROM WELFARE TO WORK

The two types of families we examined, AFDC families and working poor non-AFDC families, are frequently the same families observed at different points in time. Many low-income families go on and off the welfare rolls because of events that affect their ability to work at a particular time--for example, changes in availability of a job, child care arrangements, health of children, and access to affordable transportation. Nearly 64 percent of welfare recipients leave AFDC within 2 years; however, between two-thirds and three-fourths of those who leave AFDC return within a 5-year period, according to a recent study.¹²

When AFDC recipients move into the workforce, they generally work at low paying jobs and incur the types of job-related expenses mentioned earlier. Some discussions of changes in the welfare system have incorporated ideas about how to reduce the number of working poor who return to welfare, in addition to concentrating on ways to get jobs for welfare recipients. Our recent child care study¹³ found that one work-related support--child care subsidies--can help women on welfare move into the workforce and stay there. For example, providing a full subsidy to mothers who pay for child care could increase the number of poor mothers who work from 29 to 44 percent.

A second work-related support--the EITC--may also help women stay in the workforce. A low-wage worker can substantially supplement her family income with the EITC. When fully implemented in 1996, the EITC would provide a woman with two children who works full time at the minimum wage--\$737 per month--an income above the

¹²LaDonna A. Pavetti, "The Dynamics of Welfare and Work: Exploring the Process by Which Women Work Their Way Off Welfare." (Harvard University, May 1993).

¹³Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec. 30, 1994).

poverty line. The EITC would add nearly \$300 to her gross monthly income, for a monthly total of \$1,033.

These work-related supports could become more important under welfare reform. Most proposed reforms call for moving hundreds of thousands of parents from welfare to work. Work-related supports, such as the child care subsidy and EITC, could serve as important factors in helping these former welfare recipients remain in the workforce and preventing non-AFDC working poor families from becoming welfare dependent.

CONCLUSIONS

The median monthly income of AFDC three-person families--a female head with two children--was below the poverty line, even when noncash benefits were added in. Working poor non-AFDC families' median income was higher--\$926 as compared with \$767 for AFDC families--but still below the poverty line. Moreover, low-wage workers may incur significant job-related costs, such as child care, which could increase the number of them financially worse off than some AFDC families. Two public supports available to low-income workers--child care subsidies and the EITC--can be important factors in helping women join and stay in the workforce. These supports may become more important under welfare reform, as policymakers seek changes to move more welfare recipients from welfare to work.

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Mr. Chairman, that concludes my prepared statement. At this time, I will be happy to answer any questions you or other members of the Committee may have.

<p>For more information on this testimony, please call Cynthia M. Fagnoni, Assistant Director, at (202) 512-7202, or Annette Graziani Lozen, Evaluator, at (313) 256-8056. Other major contributors include Ron Vieregge, Evaluator; Robert DeRoy, Assistant Director; Paula Bonin, Senior Computer Analyst.</p>
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RELATED GAO PRODUCTS

Welfare to Work: AFDC Training Program Spends Billions, but Not Well Focused on Employment (GAO/T-HEHS-95-51, Jan. 10, 1995).

Child Care: Child Care Subsidies Increase Likelihood That Low-Income Mothers Will Work (GAO/HEHS-95-20, Dec., 1994).

Welfare to Work: Current AFDC Program Not Sufficiently Focused on Employment (GAO/HEHS-95-28, Dec. 19, 1994).

Child Care: Promoting Quality in Family Child Care (GAO/HEHS-95-36, Dec. 7, 1994).

Child Care: Current System Could Undermine Goals of Welfare Reform (GAO/T-HEHS-94-238, Sept. 20, 1994).

Welfare to Work: JOBS Automated Systems Do Not Focus on Program's Employment Objective (GAO/AIMD-94-44, June 8, 1994).

Families on Welfare: Sharp Rise in Never-Married Women Reflects Societal Trend (GAO/HEHS-94-92, May 31, 1994).

Families on Welfare: Teenage Mothers Least Likely to Become Self-Sufficient (GAO/HEHS-94-115, May 31, 1994).

Families on Welfare: Focus on Teenage Mothers Could Enhance Welfare Reform Efforts (GAO/HEHS-94-112, May 31, 1994).

Child Care: Working Poor and Welfare Recipients Face Service Gaps (GAO/HEHS-94-87, May 13, 1994).

Multiple Employment and Training Programs: Major Overhaul Is Needed (GAO/T-HEHS-94-109, Mar. 3, 1994).

Child Care Quality: States' Difficulties Enforcing Standards Confront Welfare Reform Plans (GAO/T-HEHS-94-99, Feb. 11, 1994).

Tax Policy: Earned Tax Credit: Design and Administration Could Be Improved (GAO/GGD-93-145).

Self-Sufficiency: Opportunities and Disincentives on the Road to Economic Independence (GAO/HRD-93-23, Aug. 6, 1993).

Welfare to Work: States Serve Least Job-Ready While Meeting JOBS Participation Rates (GAO/HRD-93-2, Nov. 12, 1992).

Welfare to Work: Implementation and Evaluation of Transitional Benefits Need HHS Action (GAO/HRD-92-118, Sept. 29, 1992).

Poverty Trends, 1980-88: Changes in Family Composition and Income Sources Among the Poor (GAO/PEMD-92-34, Sept. 10, 1992).

Mother-Only Families: Low Earnings Will Keep Many Children in Poverty (GAO/HRD-91-62, Apr. 2, 1991).

Welfare: Income and Relative Poverty Status of AFDC Families (GAO/HRD-88-9, Nov., 1987).

Work and Welfare: Current AFDC Programs and Implications for Federal Policy (GAO/HRD-87-34, Jan. 29, 1987).

Public Assistance Benefits Vary Widely From State To State, But Generally Exceed The Poverty Line (GAO/HRD-81-6, Nov. 14, 1980).

(105919)

STATEMENT OF THE HONORABLE CARROLL CAMPBELL
JANUARY 25, 1995
BLOCK GRANTS AND WELFARE REFORM
BEFORE THE SENATE GOVERNMENTAL AFFAIRS COMMITTEE

In one of my last acts as Governor of South Carolina two weeks ago, I was pleased to announce federal approval of a welfare-to-work demonstration project my state had been seeking for more than six months.

I only wished we could have announced it earlier.

Our project is a relatively modest 4-county demonstration emphasizing work and family responsibility. We asked the federal government to allow us to enter into reciprocal agreements with welfare clients, including intact families, requiring them to take care of their children by ensuring they attend school and receive immunizations, and to take care of themselves by requiring they participate in training or education leading to a job. Under the program, if clients don't meet the terms of the contract, we proposed the loss of all AFDC benefits to the family. H-H-S allowed the full-family AFDC cut-off in only two of our four counties; in the other two, only the adult may lose benefits.

In South Carolina, an adult-only welfare payment is very low. What we have found is that the welfare payment for the adult alone is not a sufficient incentive to live up to the other requirements. If H-H-S were serious about reform, Mr. Chairman, the agency would have allowed our modest initiative.

Given the breadth of what is being discussed today, our waiver is relatively modest. Yet it still took months of negotiations with H-H-S and we still saw significant cutbacks in our proposals before the federal government saw fit to let us proceed.

Mr. Chairman, the South Carolina experience is proof positive that states need the freedom to move more quickly to reform and re-invent welfare. H-H-S told us we had gotten fast-track approval; many states are waiting a year or more for their waivers if they

are approved at all. And, if South Carolina had to scale back our 4-county demonstration project, it is easy to imagine that state-wide projects will be nearly impossible to enact.

I am very pleased that this Congress is prepared to enact radical changes to welfare -- hopefully far beyond tinkering around the margins with waivers. There seems to be nearly universal agreement that America's anti-poverty policy -- with welfare as its centerpiece -- is not working. Recipients are locked into a cycle of poverty as handouts foster dependency, discourage marriage and don't expect or encourage a person to work.

But, while we can all agree that changes should be made, the exact nature of the needed changes is more problematic. Generally, we know that welfare or any new anti-poverty program should reinforce the values by which most Americans try to live: work, family, personal responsibility and self-reliance.

The House's Contract with America originally suggested some fairly specific ways those objectives should be achieved. But, as many have said, Mr. Chairman, conservative micromanagement can be just as bad a liberal micromanagement. While it is a very human desire for anyone to try to put their own philosophical stamp on programs that they help to pay for, the fact is that those of us who have actually run these programs know all too well that the intractable problems we are dealing with do not lend themselves to purely philosophical solutions. We have got to deal in the real world, where there is no one-size-fits-all solution.

Many Governors have been working with Congress to develop a workable proposal for block granting some or all social service spending. It's an idea that we have been discussing for some years and an idea whose time has perhaps now come. Block granting is attractive to Congress -- if done as an entitlement to the states rather than an individual entitlement, it provides federal budgetary certainty. It is also attractive to states and Governors, who would like to be freed from federal rules and regulations that may or may not work in the various states.

But Governors view block granting with a certain amount of justifiable suspicion. Once you sever the individual entitlement to a fixed percentage of federal funding, states are highly vulnerable to arbitrary cuts dictated by budgetary needs. In the case of a balanced budget amendment, that concern becomes even more acute. Needless to say, the demand for services would not go away.

Nonetheless, on balance, I am convinced that Congress is on the right trail in pursuing block grants. With minimal strings attached, this strategy can invigorate and energize the domestic policymaking apparatus in the nation. As is clearly evidenced by the number of welfare, Medicaid and food stamp waiver requests, states and localities are ready to try new solutions and are willing to be held accountable both for budgets and for results.

Arriving at a baseline and allocation formula for such a massive new block grant approach will not be easy. In my judgment, the initial decisions must be based essentially on protecting each state's status quo. Thus, each state would receive that portion of the block grant that equals the portion of the total federal spending received by each state in a base year or average of base years. The amount would be adjusted each year for inflation.

To the extent that you really want to block grant, what you clearly need to avoid is a formula fight that would stall reform for months or years or even forever.

If, as Congress is discussing, you provide additional flexibility to transfer funds among the social services block grants, I believe you would see some extraordinary innovations at the state level. And such flexibility would be another encouragement for Governors to accept some kind of caps.

The decision is yours about how many strings will come with the federal contribution to these block grants. But my experience as a Governor has convinced me that the only way we are going to get real cultural change is to allow for freedom to test

new ways of delivering services that encourage and, yes, require people to move to independence.

It is true that Governors deep down would like Washington to "leave the money on the stump" and trust the states to do the right thing. And I think states generally would. But we also respect that you must be responsible stewards of the federal dollar, so we know that "no strings" is not a completely realistic attitude.

But, Mr. Chairman, I urge you not to lay down a set of rigid rules or uniform benchmarks that must be met by states and localities. The states are different -- in terms of our demographics and economies and our current welfare systems. These differences demand goals that are tailored to our own circumstances. Each state should be required to submit a state plan to the Secretary and perhaps there should be some goals enunciated. You should work with the states to see what is workable: tailored goals make sense to me; arbitrary sanctions won't work.

The important thing is for the Senate and the Congress to work with Governors, mayors and others in an effort to design a new pattern of federalism. I was committed to this concept as governor; I'm committed to it as a citizen.



NATIONAL CONFERENCE OF STATE LEGISLATURES

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STATEMENT OF
REPRESENTATIVE JANE CAMPBELL
ASSISTANT MINORITY LEADER, OHIO HOUSE OF REPRESENTATIVES
PRESIDENT
NATIONAL CONFERENCE OF STATE LEGISLATURES

ON BEHALF OF THE
NATIONAL CONFERENCE OF STATE LEGISLATURES

CONCERNING
THE ROLE OF STATES IN WELFARE REFORM

BEFORE THE
COMMITTEE ON GOVERNMENT AFFAIRS
U.S. SENATE

JANUARY 25, 1994

Mr. Chairman and Members of the Senate Committee on Government Affairs, I am Jane Campbell, State Representative from Cleveland, Ohio, where I serve as House Assistant Minority Leader and am a member of the House Finance and Appropriations Committee. I am the President of the National Conference of State Legislatures (NCSL). I have also served as a member of NCSL's Welfare Reform Task Force and the State and Local Officials Advisory Group on Welfare Reform.

I appear today on behalf of NCSL to discuss the concerns of state legislators that need to be addressed in order to truly create a new system to foster independence and self-sufficiency for all low-income families and to reduce child poverty. My statement is based on NCSL's policy, "State/Federal Partnership for Federal Welfare Reform", passed unanimously at our Annual Meeting this summer. This policy is the result of a bipartisan consensus of our task force on welfare reform, which examined this complex issue for two years.

Mr. Chairman, the nation's state legislatures stand ready to work with you and members of this Committee to enact welfare reform that promotes self-sufficiency, ends dependence and, ultimately, moves children out of poverty. We are committed to working closely with you to fashion legislation that will give states the authority to design programs that meet local needs.

There is no simple solution, no single answer to reforming our welfare system. A one-size-fits-all or cookie cutter approach constrains state innovation. It would make more sense for the federal government to set overall goals for the program, let states design their own programs and measure our outcomes rather than our process. Too often states are judged by our ability to fill out forms or meet participation goals rather than our success in moving children and families out of welfare and poverty.

My testimony today lays out how welfare might be administered if states are given block-grant type flexibility. It also specifies changes that must be made should we only be able to amend current law and regulations.

In Ohio, eligibility workers have nearly 4,000 pages of federal regulations and 2,000 pages of clarifying regulations with which to contend. All too often, welfare fraud is really overpayment due to a worker's error. None of this administrative overload makes American families stronger or moves children out of poverty or enables parents to support their families.

Innovation gets stymied by federal rules and micromanagement. Ohio uses a uniform application form for AFDC, Food Stamps, WIC and Medicaid to increase efficiency, reduce paperwork and move toward one-stop service. Our single application form is 36 pages with 770 questions. Federal rules and sanctions, however, force state and local workers to focus their efforts on passing audits rather than providing services. Conflicting rules for federal programs add to the confusion.

Mr. Chairman, I appreciate your willingness to examine the relationship between the states and the federal government on welfare reform. Welfare reform should give states the flexibility to comprehensively provide education, training and employment for welfare recipients and improve child support collections. Together, we can ensure that those who work can rise above poverty.

True welfare reform will only come in a partnership between the federal government, states, localities, recipients and the private sector. For state legislators, this means a new welfare reform policy we can implement, that takes into account how state laws are enacted, that gives the states the flexibility to innovate and address local needs and that does not shift costs to the states.

Our current system was created with one goal in mind: to provide a minimum level of support to families, mostly widows and orphans. In other words, to provide an inexpensive way to make sure that poor children did not starve. The system was designed to support long-term dependence and efforts to work or build stable family relationships were considered fraudulent.

Today, we expect our public assistance system to serve a variety of needs but we have not changed its basic design. Today's majority of children on AFDC are not orphans, they reside in single parent families with divorced, abandoned or never-married mothers. Most women work outside the home and our economy has changed the type of job opportunities available to low-skilled workers. **We believe that all recipients should work, yet the current rules penalize recipients who do.**

We all agree that reforming welfare is imperative. We agree the current system must change. The public hates it; recipients hate it; politicians hate it; business hates it and the people who work in the system hate it. Yet we must understand that the welfare reform debate that centers on family and children is a small portion of our expenditures. The preponderance of our money is spent on aged and disabled people.

NCSL strongly believes that concern for children and their well-being must be paramount. But in order to support these children, we must find ways with dignity to enable their parents to support themselves. **We urge you to act cautiously regarding whole family sanctions so that we do not find more children thrown into foster care simply for economic hardship.** Why does it make sense to pay more for someone else to raise a child whose mother or father loves them dearly and just doesn't have funds to raise them?

Unfortunately, there is no quick fix for this program. Families become destitute for a variety of reasons. These include job loss, spousal abuse, the failure of our educational system, addiction, recession, and the lack of child care and other support services. Self-sufficiency for these families will require a variety of solutions including child support enforcement, education and training programs and employment. Additionally, we need to invest in family formation and support. **However, many federal rules, such as the 100 hour rule, work history rule and the marriage penalty, impede family formation. I urge you to allow states to waive these requirements in their state plans.**

Mr. Chairman, state legislators believe that recipients who play by the rules and leave public assistance or those working poor families who work and struggle to make ends meet should not be worse off than those on welfare. We also hear too often from mothers who leave public assistance for work how their first promotion, a ten-cents per hour raise, often eliminates their eligibility for child care assistance or how after their transitional year of health care benefits, they must return to welfare to provide health coverage for their children. If our goal is fostering family independence, we must ensure that employment is always better than welfare. This includes part-time employment.

INVESTING IN FAMILY INDEPENDENCE

Welfare recipients want to work. Mr. Chairman, some states have reached their JOBS federal participation rate on volunteers alone.

Too often, people who leave welfare cycle back into the system. **The federal government should give the states the flexibility to expand the amount that recipients earn without penalty of loss.** Currently for every dollar a welfare recipient earns, she loses a dollar. By changing our incentive system through expanding earned income disregards, increasing the asset limit and fill the gap budgeting, we would change the incentives. A study commissioned by the Washington State Legislature found that welfare recipients who work while on AFDC have a much better chance of long-term self-sufficiency. The federal government should allow the states to make these changes without the need for a federal waiver application.

Conflicting federal rules for AFDC, Medicaid and Food Stamps often dissuade recipients to work. NCSL strongly supports efforts to simplify these rules and apply them consistently. We also must examine rules that may inadvertently limit the ability of recipients to work. Cars are a classic example. I don't know the last time you tried to rely on a \$1,500 car to get to work - or depended on a staff member with that car - but I'd imagine not recently! Food Stamps allow cars up to \$6,000. The rules should be consistent and realistic. We know what it takes to get to work in our state. **States also should be allowed in their state plans to choose to pay reasonable transportation costs for participants in**

employment and training, transitional assistance and employment, both to and from work and to and from child care.

RESPONSIBILITY AND TRANSITIONAL ASSISTANCE

We concur that welfare should be a temporary program for employable individuals when or where work is available. States should be accorded maximum flexibility in implementing policies that must meet local needs.. **NCSL supports a time-limited or transitional period of public assistance and training followed by employment or federally subsidized work with support services.** NCSL chose not to advocate for a specific time limit but rather to allow states to choose their own patterns including when the clock starts and stops.

NCSL believes that the private sector is critical to the development of work opportunities (similarly, training must be developed with an understanding of local job markets -- the private sector is critical to this activity). **We support employment opportunities in the private and not-for-profit sector with community work experience as a last resort. Work requirements must be developed and defined at the state level must take into account the needs of the local communities and the private sector.** Many states, like Ohio, have pockets of extremely high unemployment that are not revealed in state unemployment figures. Therefore, state unemployment figures alone cannot determine state participation rates. Work requirements for community service must not displace existing public employees.

Critical to our vision of federal welfare reform is mutual responsibility between government and welfare recipients. We support the concept of an employability plan and personal responsibility agreement. NCSL supports meaningful sanctions for those who do not comply. However, we are concerned about sanctioning children for their parent's noncompliance. **States must have the flexibility to design employability plans and personal responsibility agreements.**

Mr. Chairman, renewing the social contract between recipients and government has much support from state legislators. However, a real contract must hold both parties accountable. Governments must support and encourage productive activity by participants. Otherwise, public confidence will fade and our constituents will believe that once again we failed to end welfare as we know it and create an investment in family independence.

BUILD ON THE FAMILY SUPPORT ACT'S JOBS PROGRAM

Mr. Chairman, we would like to see further welfare reform build on the consensus in The Family Support Act of 1988. States appreciate the flexibility of the current JOBS program and have developed programs to suit local needs. Unfortunately, the majority of states do not have enough money to draw down our full allocation of JOBS funds. The funds available serve only a small portion of eligibles and the federal rules emphasize program participation rather than program outcome measures.

In Cuyahoga County, Ohio, we currently have 45,000 adults dependent on public assistance. In our current welfare reform program(as of 12/31/94), 6,248 more people than we have money to serve have been through jobs assessment and found to need education and training. They stand willing and ready - anxious even - for training but without service. **In the past, welfare reform raised expectations, but federal funding has either had too high a match or too little available.**

The Family Support Act is an example. Implementation of the JOBS program was a top priority in our legislatures. However, in 1988, we did not envision that the combination of a recessionary economy and simultaneous state fiscal crisis would lead to dramatic welfare caseload growth and our inability to provide the state dollars necessary to match all appropriated JOBS funds. Today, we match these funds. Any welfare reform must consider the impact of an economic downturn on financing and participation.

In Ohio, as in all the states, we met our 11% participation rate requirement for JOBS. Our JOBS program has followed the clear intent of federal regulations that created it, a focus on placing people in job training activities rather than emphasizing actual employment. Ironically, we cannot get federal matching funds for job development because that is not deemed a program expense. Job development is, however, a critical component of employment and an important means of involving the private sector in identifying job opportunities and the skills required for those opportunities.

The JOBS program has also exposed us to the diversity of skills in welfare recipients. We have many recipients who are functionally illiterate and many who are high school graduates who function at fifth and sixth grade levels. These individuals may need extensive educational attention prior to employment.

EMPLOYMENT

As policymakers, we are concerned that federal welfare reform include a corresponding national economic policy and employment strategy. The federal government cannot make welfare policy in a vacuum. Structural economic issues such as interest rates, unemployment, seasonal employment, part time work and economic development intrude on our goal of self-sufficiency for welfare recipients.

The federal government must understand the diversity of our welfare population and its potential impact on long-term employment. States need the ability to choose different strategies for families receiving welfare. A continuum to self-sufficiency might include different strategies: job search for those with skills and work histories, treatment for heads of households with substance abuse problems, mandatory work for those unable to find employment, part-time work with increased earnings disregards, and support for the employed so that working people are better off than public assistance recipients.

The federal government must ensure that welfare policy matches economic policy. Otherwise we will continue impoverishing children while blaming parents for situations they do not control.

State legislators believe that welfare reform must address these new realities. A new partnership must be developed between the states, local governments, the private sector, welfare recipients and the federal government.

We have grappled with how to implement job training and employment programs that make sense. Cleveland is not Dayton and is not Belmont County down on the river. The job market in Cincinnati is markedly different than Appalachia's. In one county in Ohio we have had two major employers close, a factory and a mine. In one five county area, the major employer is a maximum security prison. Jobs are scarce. I know people who drive 1 1/2 hours to 2 1/2 hours each way to work every day - an impossible task with a \$1,500 car in the snowy hills of southern Ohio. Again, I renew our plea for state flexibility.

NCSL strongly believes that any education, employment and training program must allow states to develop their own plans to reflect local needs. A one-size fits all stifles state innovation causing both recipients and local business to suffer. Allow us to create our best effort.

I am concerned, however, that we think about any new employment and training program in concert with the myriad of state and federal programs that provide education, training and employment. Too often we are duplicating what is already there. The U.S. General Accounting Office reported approximately 150 different employment and training programs. **The federal government could assist the states by rethinking how these programs could better fit together and eliminating existing barriers to coordination.** In Ohio we have 55 different job training programs in 10 different departments. Once a program starts it continues without regard to its success or failure.

Some recipients will need more assistance than others. Some areas have fewer opportunities than others. NCSL supports efforts that would allow states to provide upfront employment search and supportive services (like child care and health care) so that some families will never enter the welfare rolls.

In our view, welfare reform must focus on community economic development first with community work experience as a last resort. Work requirements for community service should be designed without displacing public employees. The private sector should participate and must be at the table. Job creation and the development of employment opportunities are vital to our success. The need for community development in concentrated areas of poverty is a barrier to self-sufficiency. NCSL has long supported tax incentives for this purpose. The Targeted Jobs Tax Credit and the more recent tax incentive in the Empowerment Zones legislation encourage the private sector to hire within distressed communities.

FEDERAL RULES IMPEDE SELF-SUFFICIENCY

NCSL believes that all federal rules should be repealed that put low income working people at a disadvantage as compared to welfare recipients. NCSL strongly believes that part-time employment with some support is preferable to nonwork.

NCSL believes that federal rules that create financial disincentives for work should be repealed. Working should always improve a family's financial and economic situation. Some of the federal barriers to employment needing change include:

- o Allowing states the option to use fill-the-gap budgeting;
- o Allowing states the option to increase earnings disregards;
- o Eliminating the 100 hour rule;
- o Allowing flexibility to states to change or exempt resource and asset limits including the vehicle allowance;
- o Flexibility for states to increase transitional child care and health care (medicaid) for more than the current one year with federal financial participation.

SUPPORT SERVICES

NCSL believes that front-end services to avoid welfare participation are critical to the success of national reform. These might include the provision of child care or health care to the working poor who may be at risk of entering the welfare system.

Mr. Chairman, lack of health care is often cited as the reason families return to welfare after leaving for employment. Women on welfare are often faced with a stark choice -- the dignity of employment that offers no health insurance or dependence on AFDC with its assurance of Medicaid for their children. Only when health care reform assures that every working family has health coverage will meaningful welfare reform be possible..

Child care is another integral component of welfare reform.

Mr. Chairman, we cannot fool ourselves. Providing child care for an expanded numbers of recipients in education and training, work experience and in the transition from welfare to full time employment is very expensive. Adequate resources and an improved infrastructure are critical so that children have access to quality care.

We cannot ignore the issues of child care quality and increasing child care supply. Informal, unregulated care is still used predominantly in rural areas where child care choices are limited. As part of our program, we work to educate clients on how to identify good quality care. **NCSL strongly believes that funds should be available to the states to improve the supply of quality affordable care.** The JOBS and Transitional child care funding streams have no funding available for any activities other than reimbursement. A welfare reform plan must allow states more flexibility to allocate some resources toward expansion of care.

The public and private sectors can work together to expand the availability of child care. NCSL supports efforts to increase the federal match for child care.

We should not only focus on reimbursement for child care for welfare recipients. Families struggling to make ends meet on low wage jobs need help whether or not they have been on welfare. **Child care assistance should continue based on income, not welfare status.**

Transportation is another barrier to employment. **Transportation assistance, including the option of increasing or eliminating the vehicle allotment, must be part of any federal welfare reform plan.** Too often, work opportunities are provided at a distance from where recipients live. This assistance must take into account transportation needs for child care.

Work expenses are an additional barrier to employment. Uniforms, tools and texts are especially costly for those beginning employment. NCSL believes that the federal government must provide adequate funds and eligibility disallowance for work expenses. There is little coordination between the various programs that assist low-income families with their housing needs and self-sufficiency efforts. We urge the federal government to link these systems so that those who return to employment are not in danger of losing their housing assistance and can earn their way out of poverty.

FLEXIBILITY FOR STATE INNOVATION

Legislators, whether state or federal, must make difficult choices usually within fiscal constraints. We must best decide how to spend tax dollars. Should we spend funds on developing jobs for employable adults or providing more education and training to recipients? Or providing the infrastructure to develop or monitor public work experience to AFDC recipients who cannot find jobs in the public sector after a time-limit?

States should be allowed to create programs that address their local circumstances.

The federal government must provide flexibility to the states in any employment program so that states can meet the variety of local employment markets and gear education and training to those needs.

BLOCK GRANTS AND ENTITLEMENT CAPS

Mr. Chairman, my support of flexibility is based on my experience in Ohio. I am encouraged by discussions in Congress about returning program flexibility to the states. **There are many ways of returning program decision-making to the states. Program consolidation of discretionary programs into block grants will give states more flexibility and the ability to determine what programming is needed at the local level. Block grants do not necessitate capping or eliminating entitlement programs for both individuals and states.** We are very concerned about proposals to cap or eliminate entitlement programs. It is possible to grant states flexibility within existing entitlements as well.

NCSL believes that placing an arbitrary ceiling on entitlement funds or requiring states to adhere to existing federal requirements while the federal government reduces its financial participation would be a cost-shift to the states. We are very concerned about providing funding using state-only funds to populations who would be no longer covered. Similarly, while NCSL is not part of the negotiations in the House of Representatives, we remain concerned that the proposed block grants that include entitlement programs would not grant sufficient flexibility to merit a reduction of funds. **State legislators are interested in creating their own programs, not running a uniform program with federally-determined program details such as a uniform time-limit with fewer funds.** Mr. Chairman, when considering block grants, I urge you to set the goals for the program and measure us against our outcomes.

I am also concerned about the vulnerability of Ohio residents and the state of Ohio in a recession without an entitlement program or under a cap. My mother grew up in Youngstown. The Mahoning Valley had good jobs for generations; it was a thriving community. When the recession came and the steel mill closed, families who worked hard and played by the rules were destitute. Many still are. The workers had good jobs with little education. Now I drive through the town past enormous empty mills. If this had happened under an entitlement cap at the end of the year, these families might have been ineligible for aid.

When consolidating categorical human services programs into block grants, maximum flexibility must be provided to us with respect to program implementation and administration. It is critical that any new block grants that are sent to the states have language that allows distribution according to state law. The federal government should not create new entities to oversee these new block grants nor impose additional reporting or planning requirements as long as a state accomplishes the goal. States must be authorized to determine the branch of state government responsible for carrying out public participation requirements.

Mr. Chairman, our experience with current block grants leads me to some further recommendations. **The federal government must eliminate requirements inside of the block grant that have the effect of creating categorical programs within a block grant and make explicit that the kinds of activities funded in the past under categorical programs not limit the programs funded by the corresponding block grant.** Federal reporting requirements must not be burdensome or require the use of funds designated for service delivery. Finally, I will remind you of our experience with the Social Services Block Grant, which has had one funding increase in almost 14 years. Adequate funding must be included to assure continuation of services. The federal government should continue to provide technical assistance and facilitate information exchange among the states. The formula for reallocating these funds will certainly be of concern.

In Ohio, we have put our money where our mouths are. We are using financial incentives with our 88 counties to improve child support collections. We passed our federal audit for the first time last year by allocating resources using a child poverty formula, setting outcomes for paternity, parent location, initial orders and collections and providing a bonus to counties who succeeded. We have decided not to micromanage, but to reward success.

TEEN PARENTS

Teen parents need special assistance and early intervention beyond education and training to become self-sufficient. While only 7% of our welfare population, teen parents are particularly at risk for long-term welfare dependency and education deficiencies. States must be allowed to include programs to promote better parenting as well. We believe that the new Family Preservation and Support Services program, which NCSL strongly supported is an important first step in this area. We believe that it is essential that a link be made between this program and welfare reform. Teen fathers also must not be left out of these programs. If we do not include them, we will have a continuation of the break-up of these families.

Mr. Chairman, Ohio's Learning, Earning and Parenting (LEAP) program's evaluation results reveal that teen parents need special assistance to stay in school and, ultimately, improve their job opportunities. LEAP rewarded teen parents for participation in high school or GED programs. Our LEAP students are staying in and graduating from school at much higher rates than the non-LEAP parent. I attribute our success, as does our evaluation, to the comprehensive counseling available to LEAP teens (called GRADS). GRADS provided these teens with a case manager who intervened and guided them through the system. What truly mattered was that somebody cared for these teens, many of whom have never lived with a stable family. State legislators believe that young welfare recipients need intensive case management.

State legislators are uncomfortable, however, with proposals to mandate that states require teen parents to reside with their families. This requirement is an option under the Family Support Act of 1988 which five states have adopted. We believe that each legislature is capable of adopting this

legislation if they so chose. Some have not due to studies illustrating a high incidence of physical and sexual abuse among teen parents.

NCSL strongly supports a nationwide campaign at the federal level to combat out-of-wedlock births. We hope that this legislation will establish a role for states in this campaign and the teen pregnancy prevention grant program.

We also support proposals to target federal welfare reform on teen parents initially. Welfare reform must be implemented gradually for it to work. We believe that focusing our resources on teen parents will begin our effort with those on whom we can have a significant effect.

Our welfare reform task force did not find a research link between the availability of welfare and the occurrence of teen pregnancy. **NCSL opposes the elimination of welfare benefits to young parents.** However, we believe that over time teen parents have much more difficulty remaining self-sufficient and are more vulnerable to economic shifts in the labor market. For that reason we applaud the effort to focus our welfare reform efforts on young parents.

FINANCING

NCSL will oppose any financing proposals that will shift the costs of welfare further to the states. As a state legislator, I understand the difficulties of raising funds and the trade-offs involved in funding initiatives. It is our belief, clearly shared by members of Congress and the Administration, that a full scale revision of our existing welfare reform system will be expensive but worth the investment. The proof will be the results over time.

Mr. Chairman, welfare reform is not cheap. We learned implementing the JOBS program that employment and training programs, child care for participants and transitional benefits and a new infrastructure to monitor job participation is costly. Many states can not make their match even today. Ohio still does not serve every family anxious to move out of welfare.

I urge you to provide significant resources for this effort, whether it be by block grant, current law or some other mechanism. Bear in mind, welfare reform is doomed to failure if not substantially financed. If the federal government does not, welfare reform will fail.

States cannot afford welfare reform on their own. Community work experience, while considered a cheaper option, still requires a significant influx of funds for development and monitoring of work requirements. A major expansion, even phased-in over time, cannot be supported by states alone.

NCSL opposes financing welfare reform by unfunded mandates or by transferring needy populations to state government through the elimination of program and benefit funding by the federal government. Mr. Chairman, the federal government cannot eliminate their responsibility for legal immigrants, substance abusers, homeless families or families in crisis. This does not provide a solution for legitimate needs, instead it transfers the need to state and locally-funded programs and non-profit programs and public hospitals.

We are deeply troubled by proposals to finance federal welfare reform through elimination of benefits to legal immigrants. NCSL strongly believes that it is the responsibility of the federal government to fund its policy decisions. Since the federal government has sole jurisdiction over immigration policy, it must bear the responsibility to serve the immigrants that it allows to enter states and localities. **Federal decisions have increased admissions and reduced targeted funding to states and localities for immigrants, shifting the costs to state and local budgets. For these reasons, we will oppose any financing that eliminated federal benefits for legal immigrants.**

The majority of legal immigrants, refugees included, are employed and contribute to federal, state and local revenues. However, according to the Urban Institute, these revenues are heavily skewed towards

the federal government while states and localities bear disproportionate shares of the costs of services to newly arrived immigrants. Individual states cannot and should not bear any further costs.

The federal government may find savings through eliminating SSI benefits to elderly, needy and disabled legal immigrants. Unfortunately, that savings will just shift the costs to states (in particular general assistance programs). The indigent elderly that are the 30 percent of the caseload that go on the rolls after their American citizen children cease to be legally responsible for them are no different than other indigent elderly who apply for SSI. 20 percent of the caseload were here at least 10 years before applying for SSI. 25% of the SSI population are refugees, the largest of which are elderly Soviet Jews. Eliminating federal aid will not eliminate the need, and state and local budgets and taxpayers will bear the burden.

NCSL strongly opposes expanding deeming from three to five years for SSI, Food Stamps and AFDC. As the Committee is aware, immigrant sponsorship is not legally-binding and approximately half of legal immigrants are admitted without sponsors at the discretion of the US counselor abroad. States have had difficulty locating sponsors and when we do, we cannot compel them for support. Legally, states do not have the Constitutional ability to treat legal immigrants differently than citizens (unlike the federal government which can under its foreign policy powers). Many states are also prohibited by their own state constitutions. So, the cost of serving needy legal immigrants will be shifted to the states and localities.

Mr. Chairman, state legislators do not believe that welfare reform legislation is the appropriate place for the immigration debate. We cannot pit legal immigrants against welfare recipients. This thinking has led to resentment and disturbances in our inner cities.

Capping AFDC-Emergency Assistance is also opposed by NCSL. No state plan for AFDC-EA has ever been denied and many states use these funds for families in crisis from those needing emergency housing to those needing intensive family counseling services. NCSL opposes capping open-ended entitlement programs to fund welfare reform.

Many of the federal reform proposals include funds raised by time-limiting SSI/SSDI for substance abusers. We certainly understand the frustration that led Congress to change current law. However, this provision also will shift costs to the states. States are currently unable to treat targeted groups, especially pregnant women, with appropriated funds for substance abuse treatment. Unfortunately, we do not have the funds to treat all who need services. Returning those on SSI/SSDI to the street will increase those relying on state general assistance, public hospitals and, even worse, the homeless.

We are also extremely concerned about the financial penalties and maintenance of effort in many proposals. States need the flexibility to address other critical needs, especially as the welfare population decreases. States should, at a minimum, be able to expend funds in other related programs.

CHILD SUPPORT ENFORCEMENT

Child support enforcement is a critical component of welfare reform. State legislators have been at the forefront of innovative efforts to improve paternity establishment, including in-hospital paternity establishment, collect and enforce child support orders, find new penalties for non-custodial parents who refuse to provide support, use mediation and expedited administrative procedures, provide a guaranteed level of child support, and outreach to teen non-custodial parents. We are concerned, however, about unfunded mandates and preemption of state law in any new federal child support law. Family law must remain in the state's jurisdiction.

While NCSL believes states should adopt uniform interstate child support enforcement procedures, NCSL opposes federal legislation which would preempt this authority of the states. Similarly, preemption of state authority to determine child support collection. We are also concerned about the cost of new automated systems and other changes in the child support system.. There must be enhanced match rates for these automated systems. We reiterate our concern that as states update their child support legislation that technical assistance is needed to assist the states as they come

into compliance with federal goals. State legislators should have the option of extending child support benefits beyond the age of majority for those children in college.

FEDERAL WAIVERS FOR WELFARE REFORM

State legislators are pleased with the Administration's expedited waiver review process. Ohio was pleased to be permitted to demonstrate our LEAP program and more recently our Ohiocare program. As I have repeated often in our testimony, we believe that options are preferable to waiver authority. For many potential policy initiatives from the 100 hour rule to expanded earnings disregards, we no longer need to test new ideas. Instead, states should have the option of choosing them as amendments to their state plans.

NCSL strongly believes, however, that too often legislators are not consulted about federal waiver requests that require changes in state laws. Where applicable, NCSL strongly believes that waivers should be granted with the passage of state laws (where required by state law) rather than prior to them. Waiver applications are currently negotiated between state and federal executive agencies. As fellow legislators, you can appreciate our frustration to be presented with agreements without consultation.

On behalf of the National Conference of State Legislatures, thank you for consideration of my remarks. I would be happy to answer any questions you may have.



DEPARTMENT OF HEALTH & HUMAN SERVICES

STATEMENT BY
MARY JO BANE
ASSISTANT SECRETARY
FOR CHILDREN AND FAMILIES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS

JANUARY 25, 1995

Good morning Mr. Chairman and members of the Committee. I am the Assistant Secretary for Children and Families in the Department of Health and Human Services. My agency has responsibility for administering the nation's largest welfare program, Aid to Families with Dependent Children (or AFDC), the Child Support Enforcement program and a number of other programs to support and protect this country's needy families and children, including child welfare, Head Start and the title IV-A child care programs. In this role ACF has borne primary responsibility for implementation of this country's last major welfare reform effort -- the Family Support Act of 1988 -- and has been a key participant in the formulation of the Work and Responsibility Act -- the Administration welfare reform proposal submitted to Congress last year. I appreciate the opportunity to come before you to discuss some of the critical issues facing all of us as we attempt to reform the welfare system.

As you know, the President submitted a comprehensive welfare reform proposal that addresses what we believe are serious flaws in the current welfare system. Our approach emphasizes work, responsibility and reaching the next generation. And we are committed to working with this Congress, in a bipartisan spirit, to pass bold welfare reform legislation.

Fixing the System

In drafting our reform proposal, we worked diligently to identify and correct those parts of the system that undermined work and responsibility. Of course, we addressed specific policy changes that had to be made. But we also focused a lot of attention on why the existing welfare system is not more successful in promoting work and responsibility. We examined the prevailing culture in the welfare system and what role the federal government plays in defining that culture. We observed that, in spite of the Family Support Act, the welfare system is not nearly tough enough about insisting that recipients who are able to work do so or prepare themselves to go to work quickly. It isn't doing nearly enough to ensure that both parents support their children. And it is not providing real opportunities and challenges to the next generation.

The Administration's proposal recognized that the federal government bears some responsibility for deficiencies in the existing system, and it strives to make the federal government a better partner with the states in their welfare reform efforts. It recognized that the federal government was not giving states as much fiscal, technological and policy support as they needed -- especially during tight financial times -- for their efforts to promote work and responsibility. Also, it recognized that the current AFDC Quality Control system, which measures only the

accuracy of a state's AFDC payments, does not promote state efforts to change the culture of their welfare systems and become more work-focused. To address these problems, the Administration's proposal provided more federal support for work-related activities, including child care, and it moved to expand the QC system so that it reflects the broader mission of welfare agencies. These agencies are not only responsible for ensuring that the immediate, basic needs of destitute families are addressed, but also for assisting these families in becoming self-supporting. Federal performance systems must hold them accountable for meeting both of these responsibilities.

Principles for a Federal-State Partnership

Mr Chairman, let me say that this Administration believes strongly in state flexibility, and also shares your concern and that of state officials about the proper division of responsibility between the federal and state governments. As a former state welfare official, and now as a federal official in constant communication with states, I am well aware of the need and ability of states to respond creatively to their unique situations and reform opportunities. I am also very sympathetic to state concerns about onerous and inappropriate federal requirements.

Likewise, the President, as a former governor and a former leader of gubernatorial efforts to reform the welfare system, recognizes the critical role states play in achieving true reform. He clearly understands that state governments are closer to the problems and ultimately responsible for the success of any reform efforts. Thus, he believes they should be given flexibility to respond to their different needs and to test innovative ideas.

The Administration's welfare reform proposal greatly enhanced state flexibility with respect to the AFDC rules that most affect work and families. It also gave states new flexibility with respect to how they administer their education, training, and work activities for welfare recipients.

In addition, because of our commitment to state flexibility and innovation, we have worked with states using the section 1115 waiver authority to test new approaches to welfare. Under this process, we have approved 24 state demonstrations that enable states to experiment with new ways of promoting parental responsibility, making work pay, and helping families become self-sufficient.

We have provided waivers involving time limits on benefits, or work requirements for continued benefit receipt, in nine States: Colorado, Connecticut, Florida, Indiana, Iowa, Michigan, South Dakota, Vermont, and Wisconsin.

Waivers have been authorized for a number of purposes designed to make work pay, assist families in becoming self-sufficient and promote personal responsibility such as:

- 1) increasing or extending earned income disregards;
- 2) allowing greater resource accumulation, including for specific purposes such as education and training, or starting a business;
- 3) using the cash value of AFDC and Food Stamp benefits to subsidize private sector employment and work experience; and
- 4) eliminating increases in benefits to families after the birth of children conceived while receiving AFDC.

As we move forward to consider comprehensive reforms, there are several fundamental questions that are raised about the design of this nation's welfare system: What is the proper balance between national objectives and state flexibility? What are the appropriate funding mechanisms for programs for the needy? Should the AFDC program remain an individual, and state, entitlement or be converted to a block grant or capped discretionary program? What national requirements or accountability standards should govern a reformed welfare system?

We believe that several key goals should govern our effort to redesign the welfare system and ensure greater state flexibility:

- o achieving the national reform objectives of work, responsibility and accountability;
- o ensuring stability in funding over time and cushioning states and individuals against economic cycles; and
- o preserving basic protections for needy Americans, especially children.

National Reform Objectives

We in the Administration, as in Congress and in the states, are committed to serious welfare reform that emphasizes work, parental responsibility and improving the life prospects of young people. The Family Support Act was very important in beginning a national change in the culture of the welfare system toward one that is oriented toward work and self-sufficiency. Many states are moving further and faster than the Family Support Act required toward a welfare system focused on work and parental responsibility.

There is, however, enormous variation among the states in the extent to which they have moved in these directions. One measure is participation in the JOBS program, which gives some indication of the extent to which a work orientation is reaching the entire AFDC population. In 1993, the percent of countable adult recipients participating in the JOBS program, on an average

monthly basis, ranged from less than 10 percent to well in excess of 50 percent. The national average was only 17 percent. We know that states vary in their ability and/or willingness to bring about real cultural change in their welfare systems.

We also can look at the extent to which states choose the option of requiring welfare recipients to work for their benefits, which states can do in a variety of ways under current law. Subsidized work assignments represent only one half of one percent of the assignments in the JOBS program, and unpaid work experience represents six percent of assignments or less. Of all the state welfare reform experiments that this Administration has approved, only Vermont has included subsidized work on a statewide basis. Fewer than half of the demonstrations we have approved involve time limits on benefits or make benefits conditional on work.

Child support efforts also show substantial state variability. For example, the percentage of cases with collections in 1993 ranged from 5.4 percent in Arizona to 38.5 percent in Vermont, with a national average of only 18.2 percent.

We also need to ensure accountability for the correct expenditure of federal funds -- certainly a goal we all share. The importance of national standards in this area is illustrated by the improvement in payment accuracy that occurred after a national Quality Control system was put in place. The national AFDC payment error rate for fiscal year 1973 was 16.5 percent. By 1991, it had declined to 5 percent. In 1991, state payment error rates ranged from 1.18 percent to 9.66 percent. The State-reported rates for 1992 and 1993 suggest that the range in error rates is growing, in that the lowest reported error rate remained less than 2 percent while the highest rate rose to nearly 14 percent.

All these indicators of state capacity and performance show considerable variation. They suggest that if we truly want comprehensive and widespread welfare reform, we must balance the benefits of increased state flexibility with those of a national framework of requirements and performance standards. This balance will ensure that states move quickly and effectively to a changed culture of work and responsibility.

Fiscal and Economic Stability

The AFDC program currently is funded as an individual and state entitlement. This does not mean that the federal government provides states or individuals with a blank check for benefits. There are strict rules about eligibility. There are also requirements -- which we propose to make much tougher -- to ensure that parents cooperate in securing child support and to ensure that recipients work. AFDC must be a system of mutual

obligations, with benefits conditional upon parental responsibility and work.

But a national welfare program also must enable states to deliver the help needed by families who fall on hard times and who play by the rules. The system should not leave the states and their taxpayers with the full responsibility for addressing increased demands on the welfare system in times of economic or demographic change. Under the current entitlement funding system, the federal government is committed to share a portion of each state's expenditures, depending on the state caseload and benefit level, and the state's economic capacity in a given year. If state costs increase due to downturns in the national or state economic cycle, or if a state's needy population increases for other reasons, more federal funds automatically become available.

We understand that Congress is currently considering a number of proposals to cap and block grant the AFDC and Food Stamp programs. As you consider such fundamental changes in the nature of this nation's welfare and nutrition programs, it is important to carefully consider the effect such proposals could potentially have on states over time and under changing economic conditions.

Consider, for example, the block grant alternative to the AFDC system that is included in the Personal Responsibility Act. States would be able to receive 103 percent of their 1992 expenditures to use with almost complete flexibility in providing benefits to needy families. We can examine the possible effects of this kind of a block grant by asking ourselves what would have happened if such a block grant had been put in place for all the states in 1988, based on 1987 expenditures. We did calculations to see what states would have received in 1993 under this hypothetical block grant compared with what they actually spent in 1993. If all states had chosen the block grant option, states in the aggregate would have received 26 percent less than they actually spent, partly because of inflation and partly because of increasing caseloads. Again, however, the impacts on individual states vary enormously. Arizona would have received 67 percent less; Tennessee 43 percent less; Connecticut 40 percent less; Delaware 35 percent less; and Michigan 3 percent more. The attached table shows the results for all states. Using a different five-year period would yield different results. For example, several states in the midwest whose economies improved between 1988 and 1993 would have suffered in 1988 under a block grant set in 1983.

Of course, if the cap had been in effect in 1988, it is possible that states could have changed their welfare programs to keep their costs within the limitations imposed by the caps. But, it is hard to imagine that states would have been able to reduce demand enough to counteract the significant economic and

demographic changes that were occurring over this period, and occurring to very different degrees in different states. Block grants set to reflect current spending can create unpredictable and highly variable impacts due to inflation, population migrations, and changing economic and demographic conditions.

The design of a block grant, or the allocation of a capped entitlement, inevitably requires a formula. Different formulas produce different winners and losers, but substantial disparities will always result. In deciding whether the fiscal benefits are worth the potential effects on states, historical spending trends may be informative. Since 1972, there have been some fluctuations in AFDC expenditures, but aggregate, real current expenditures (net of child support collections) are slightly lower than 20 years ago. But, the relative stability in aggregate spending masks large variations among states. Over the period 1985-1993, state experiences varied widely; a few states experienced declines, while some experienced very substantial increases. Illinois, Iowa, Michigan and Wisconsin experienced declines in real expenditures in excess of 20 percent. At the same time, expenditures in four states (Arizona, Florida, Nevada, and New Hampshire) more than doubled in real terms.

Basic Family Protections

As we reform welfare to focus on work, responsibility and reducing dependency, we must not forget that these programs provide a lifeline when a parent has lost a job, a mother cares for a severely disabled child, an abused partner finally takes her child and breaks away, an elderly person can't make it on meager pension benefits, or a working family needs a small supplement. As a nation, we have accepted responsibility for ensuring that our neediest families have some help in meeting their basic needs.

The Personal Responsibility Act would impose a cap on funding for the AFDC, SSI, child support, emergency assistance and other programs and would block grant all food and nutrition assistance programs. It also provides that these programs would no longer be entitlements, for either individuals or states. Instead they would be discretionary spending programs subject to annual appropriations.

Although the legislation does not specify what would happen if spending exceeded the caps in a given year, these changes could have profound implications for our neediest families. They could mean that SSI recipients might not get checks during the last months of the fiscal year. The caps could mean that families whose earners lost jobs or were hit with a serious financial emergency toward the end of the year might be treated differently from families that needed assistance at the beginning of the year. They might be denied benefits, their benefits might be reduced or they might be put on waiting lists. Spending caps could also mean that food and nutrition assistance might not be available to working families when their hours or wages were

reduced. These effects could be worse in recession years, when federal funds relative to need would be greatly reduced.

It is possible that states or private charities could make up shortfalls resulting from the federal government's spending caps and provide help to their needy residents. But demands on the states are likely to be greatest at precisely those times and in those states where ability to respond is most strained. Particularly in times of economic downturn, it is quite possible that the most vulnerable citizens in the poorest states would be left without the basic necessities of life at a time when jobs are the least available.

Conclusion

Understanding the profound issues that are potentially raised by dramatic changes in the funding structure of welfare programs does not mean that these issues cannot or should not be solved. Let me restate that we in the Administration, like members of Congress, believe that the welfare system needs to be changed in fundamental ways. Our welfare reform proposal takes bold steps to refocus the system on the national objectives of work and responsibility, while increasing state flexibility and protecting America's neediest families. Obviously, there are other approaches and other creative solutions to these issues as well. But before adopting one or another approach, it is very important that we carefully assess the likely impact of that approach. We look forward to working with this Congress and others in exploring those alternatives. We also offer our cooperation in providing information as we move forward together to reform the welfare system.

I'd be happy to answer any questions at this time.

Hypothetical Impact in FY 1993 if an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

(amounts in millions)

State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	Percentage
Alabama	\$79	\$57	(\$22)	-28%
Alaska	\$60	\$29	(\$31)	-51%
Arizona	\$200	\$65	(\$135)	-67%
Arkansas	\$50	\$42	(\$8)	-16%
California	\$3,205	\$2,157	(\$1,048)	-33%
Colorado	\$102	\$70	(\$32)	-31%
Connecticut	\$207	\$124	(\$83)	-40%
Delaware	\$23	\$15	(\$8)	-35%
Dist. of Columbia	\$67	\$52	(\$15)	-22%
Florida	\$517	\$202	(\$315)	-61%
Georgia	\$297	\$189	(\$109)	-37%
Guam	\$8	\$3	(\$5)	-63%
Hawaii	\$76	\$38	(\$38)	-50%
Idaho	\$24	\$18	(\$7)	-28%
Illinois	\$487	\$487	\$0	0%
Indiana	\$158	\$111	(\$47)	-30%
Iowa	\$111	\$110	(\$1)	-1%
Kansas	\$84	\$56	(\$28)	-33%
Kentucky	\$166	\$110	(\$56)	-34%
Louisiana	\$141	\$129	(\$12)	-8%
Maine	\$75	\$62	(\$14)	-18%
Maryland	\$190	\$147	(\$44)	-23%
Massachusetts	\$408	\$303	(\$106)	-26%
Michigan	\$751	\$777	\$26	3%
Minnesota	\$239	\$198	(\$41)	-17%
Mississippi	\$75	\$69	(\$6)	-8%
Missouri	\$189	\$146	(\$43)	-23%
Montana	\$37	\$30	(\$7)	-19%

NOTES:

The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

Hypothetical Impact in FY 1993 if an AFDC Block Grant Provision Similar to the Block Grant Option in the Personal Responsibility Act Had Been Adopted in FY 1988 Using FY 1987 Funding Levels

(amounts in millions)				
State	FY 1993: Actual Federal Payments	Block Grant: 103% of FY 87 Level	Difference	
Nebraska	\$46	\$41	(\$5)	-11%
Nevada	\$28	\$10	(\$17)	-63%
New Hampshire	\$31	\$12	(\$19)	-61%
New Jersey	\$341	\$298	(\$43)	-13%
New Mexico	\$94	\$45	(\$49)	-52%
New York	\$1,684	\$1,268	(\$416)	-25%
North Carolina	\$263	\$154	(\$109)	-41%
North Dakota	\$22	\$14	(\$8)	-38%
Ohio	\$626	\$522	(\$105)	-17%
Oklahoma	\$140	\$84	(\$55)	-40%
Oregon	\$146	\$92	(\$53)	-37%
Pennsylvania	\$561	\$506	(\$56)	-10%
Puerto Rico	\$65	\$59	(\$6)	-10%
Rhode Island	\$75	\$50	(\$25)	-33%
South Carolina	\$92	\$86	(\$6)	-6%
South Dakota	\$19	\$17	(\$3)	-14%
Tennessee	\$166	\$95	(\$71)	-43%
Texas	\$385	\$207	(\$178)	-46%
Utah	\$67	\$51	(\$15)	-23%
Vermont	\$42	\$31	(\$11)	-26%
Virgin Islands	\$3	\$2	(\$1)	-26%
Virginia	\$138	\$117	(\$20)	-15%
Washington	\$365	\$239	(\$126)	-35%
West Virginia	\$97	\$87	(\$10)	-10%
Wisconsin	\$289	\$348	\$58	20%
Wyoming	\$19	\$11	(\$8)	-43%
U.S. TOTAL	\$13,834	\$10,243	(\$3,591)	-26%

NOTES:

The table estimates, for FY 1993, the hypothetical impact of a mandatory AFDC block grant provision similar to the block grant option in the Personal Responsibility Act, assuming implementation of the provision in FY 1988. The level of the block grant for each State is set at 103 percent of FY 1987 Federal payments for AFDC benefits and administration, unadjusted for inflation.

The Family Support Act was not in effect during FY 1987. To avoid overstating the impact of a block grant, Federal payments for AFDC work activities (WIN/JOBS) and AFDC-related child care are not included in either column.

TESTIMONY OF WILLIAM LUDWIG
ADMINISTRATOR OF THE
FOOD AND CONSUMER SERVICE
U.S. DEPARTMENT OF AGRICULTURE
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
JANUARY 25, 1995

Good morning, Mr. Chairman and Members of the Committee. I welcome the opportunity to be here today to discuss a subject of vital importance to the Nation, the Clinton Administration and myself--the crucial role the Federal nutrition assistance programs play in the health and well-being of our Nation's neediest individuals.

As Administrator of the Food and Consumer Service, I manage the Nation's food assistance programs--the Food Stamp Program, the Special Supplemental Food Program for Women, Infants and Children (WIC), school meals, disaster feeding, and others. At the heart of our federal nutrition programs is the core principle that Americans should not be hungry or malnourished because they cannot afford a nutritious diet.

A little more than a year ago, I came to Washington from Louisiana, where I served as Deputy Secretary for the Louisiana Department of Social Services under both the previous

and current Governors. My background in results-oriented, streamlined management in the areas of electronic benefit transfer systems, welfare reform, and child care assistance has allowed me to ensure a "State perspective" to a Department committed to and eager for major change.

I have found it to be an exciting and rewarding time to serve at USDA, as the Department has worked full speed for the past two years to restructure and redesign many of USDA's programs, making them easier for States to administer, more results oriented and customer friendly. These are philosophical and management objectives upon which we all agree.

Under President Clinton's leadership, the U.S. Department of Agriculture is making fundamental changes in the way we do business. We are committed to change and we will re-think, reform, and streamline every one of our functions. Let me assure you that our efforts are not cosmetic. The initiatives encompassed in the National Performance Review I and II are real, deep, and will generate significant savings for American taxpayers.

You have just heard from my friend and colleague at the Department of Health and Human Services, Mary Jo Bane, about the Administration's comprehensive welfare reform proposals emphasizing work, responsibility, and reaching the next generation.

Just as the President's proposals promote self-sufficiency, they also recognize and affirm the need to preserve and protect the nutritional safety net for America's most vulnerable

individuals--the vast majority of whom are children, elderly, and disabled, and are unable, due to age or infirmity, to provide for themselves.

This Administration believes there are two critical functions that our Nation's food assistance programs must serve. First, our programs must ensure that vulnerable Americans do not go hungry. The role of government in helping needy people feed themselves is fundamental and primary.

A second function of our nutrition assistance programs, which are different from cash assistance programs, is to fulfill a unique national health responsibility; they promote and protect the basic health and well-being of needy Americans. The scientific link between diet and health is clear. About 300,000 deaths each year are linked to diet and activity patterns. Low-income households are at greater risk of nutrition related disorders and chronic disease than the general U.S. population. Food assistance programs work cooperatively with cash assistance programs designed to promote self-sufficiency, a relationship grounded in years of science and results.

Since their inception, our national nutrition programs have been results oriented, designed for the expressed goal of improving families' access to nutrition security and a better diet.

Since the nationwide expansion of the Food Stamp Program and the introduction of WIC, the gap between the diets of low-income and other families has narrowed. The incidence of

growth stunting among pre-school children has decreased by nearly 65 percent. The incidence of low birthweight has fallen from 8.3 percent to 7 percent. The prevalence of anemia among low-income pre-school children has dropped by at least 5 percent.

In establishing the Food Stamp Program in 1964, and again in the major reform of 1977, Congress identified improved levels of nutrition among low-income households as a priority. When the program began, it meant more food on the table for 367,000 people. Today, the Food Stamp Program is vital to the health and well-being of over 11 million households—including children, the elderly, and working, single parents struggling to make their own and their children's lives better.

USDA's nutrition assistance programs have achieved some impressive results. We are committed to making them work even better. We must get back to basics by simplifying rules, increasing State flexibility, cutting red tape, ensuring program integrity and providing a strong nutrition message.

At USDA, we have been working for two years to achieve these goals and are proud of what has been achieved so far during this Administration—implementation of the Mickey Leland Childhood Hunger Relief Act, rapid rollout of electronic benefit delivery for food stamp benefits, working with States as partners to ensure payment accuracy, and efforts to eliminate fraud and waste. All of these changes work toward making our programs more efficient and effective so that maximum results can be achieved with available resources.

There is much more that must be done. The Department is eager to work with you to further the goal of healthy diets and to assure access to nutritious food for all Americans--especially those who depend on our food assistance programs--the young, the elderly, and those working for self-sufficiency.

As we design and develop proposals for reform, we will be guided by six core principles:

First, nutrition security: It is a core mission of USDA's food assistance programs to protect the health and nutritional well-being of these vulnerable populations--now and into the next century.

Second, modernizing benefit delivery: We will improve customer service and reduce program abuse through technologies like Electronic Benefit Transfer (EBT).

Third, state flexibility: We will work with states to design and establish administrative procedures that meet their needs.

Fourth, economic responsiveness: our programs must assure adequate levels of nutrition assistance, regardless of economic conditions.

Fifth, personal responsibility: Our programs will promote personal independence and responsibility; and,

Sixth, program integrity: we will work aggressively to eliminate the problems of fraud and abuse that threaten our programs' image, and have eroded public trust.

As you have heard this morning from Ms. Bane, there are a number of proposals under serious consideration by the 104th Congress to combine and return a number of Federally administered programs to the States. Ms. Bane has discussed how these proposals would affect welfare programs.

I would like to comment briefly on how the proposals could affect a low-income family's access to nutrition and health. As you know, USDA's nutrition programs serve a much broader population than the Aid to Families with Dependent Children program, and predominantly serve children, the elderly and disabled and many others who are unable to provide for themselves. In fact, we estimate that eighty-two percent of all households receiving food stamps contain either children, elderly, or disabled persons.

On Tuesday, January 17, USDA released an analysis of the nutrition, health, and economic consequences of block grants for Federal food assistance programs. Our report clearly shows that these proposals, if adopted, will cut the safety net protecting the nutritional well-being of millions of low-income Americans.

Under the proposal, Federal funding for food and nutrition assistance would fall by more than \$5 billion in fiscal year 1996 and nearly \$31 billion over 5 years. These cuts could

terminate benefits for millions of needy Americans.

And they threaten the future. Currently, food stamps and child nutrition programs automatically expand during tough economic times. But under the proposal, this "automatic adjustor" would vanish; food programs would not be able respond to a recession, and states might be forced to reduce benefits or serve fewer people.

The effect of the proposal would be felt by more than those who participate in USDA nutrition programs. By weakening the link between benefits and food purchases, the proposed block grant would lower retail food sales, reduce farm income, and increase unemployment, particularly in the food and agriculture industry and in rural areas. In addition, the proposal would eliminate a number of USDA authorities for the donation of commodities for domestic food assistance purposes.

Mr. Chairman, you have heard today how deeply this Administration is committed to reforming how the Federal Government works, providing greater flexibility for States to test new ideas. These reforms are key to the success of the Administration's commitment to helping families achieve self-sufficiency.

At the U.S. Department of Agriculture, we are committed to ensuring that all Americans, especially those most vulnerable, are assured access to a healthy diet so that each person can reach his or her full potential. The Federal food assistance programs have a long record of

success and a broad nutrition mission—to protect the health and well-being of all needy Americans, and to provide a basic level of food security to growing children, disabled adults, senior citizens and others. This is and should remain a national commitment.

Mr. Chairman, I appreciate the commitment of this Committee to improving the management of Federal assistance programs to make them more streamlined, responsive and results, or outcome, oriented. Looking at outcomes, we know that the food assistance programs are designed to achieve a different mission than income support, and we think this argues for different outcome measures. At USDA, we are working hard to ensure that Federal nutrition programs do the job that they were intended to do—improve the diet and health status of all Americans, especially those in need.

Mr. Chairman, Members of the Committee, this concludes my prepared remarks. I would be happy to answer any questions that you might have at this time.

**TESTIMONY BEFORE THE SENATE COMMITTEE ON
GOVERNMENTAL AFFAIRS**

**Washington, D.C.
January 25, 1995**



BY MICHAEL A. STEGMAN

**ASSISTANT SECRETARY FOR POLICY DEVELOPMENT
AND RESEARCH**

STATEMENT OF MICHAEL A. STEGMAN
ASSISTANT SECRETARY FOR POLICY DEVELOPMENT AND RESEARCH
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
BEFORE THE
SENATE COMMITTEE ON GOVERNMENTAL AFFAIRS
JANUARY 25, 1995

Mr. Chairman, on behalf of the Department of Housing and Urban Development (HUD), thank you for this opportunity to testify on reform of the welfare system. We must continue to better coordinate welfare reform and housing program reform. But we must be clear about the challenges such an agenda must overcome.

There are important differences between housing assistance and other means-tested benefit programs. First, housing assistance is not an entitlement. Housing assistance is provided only to the number of households who can be assisted within the amounts Congress appropriates each year. As a result, only about 30 percent of households currently eligible for housing assistance receive any federal housing benefits.

In addition, a bedrock principle of housing aid is to ensure that those families who do receive assistance can live in decent quality housing at affordable rents. In contrast to families that only receive AFDC, recipients of housing assistance are much more likely to occupy housing free of physical defects, to live in less overcrowded conditions, and are somewhat more likely to live in neighborhoods they consider to be adequate. According to one prominent study, families receiving housing assistance are between 34 and 50 percent more likely to have affordable housing costs than comparable AFDC families, that is, pay no more than

30 percent of their income for rent. AFDC families who do not receive housing assistance often pay more than half their limited income for housing.

I would like to touch briefly on five issues that impact on HUD's relationship to welfare reform:

- Housing program eligibility rules and their consequences for welfare reform efforts;
- HUD's experience in using housing assistance as a platform for self-sufficiency;
- HUD's current limited flexibility with regard to waiver authority;
- Potential consequences of welfare reform for HUD's budget situation; and
- Reinvention of HUD and how it relates to welfare reform.

Housing Assistance Eligibility and Its Relation to AFDC

In thinking about ways to coordinate housing and welfare reform, let me sound a cautionary note. Federal housing assistance has always served a much more diverse population of very low-income households than AFDC. Elderly and disabled households account for up to half of all HUD-assisted households. More than one-third of HUD assisted households are 65 or older and another 10-15 percent are permanently disabled. Because of the diverse household mix that HUD serves, it will be difficult to enact sweeping reforms to encourage work or alter behavior.

Special efforts must be taken to shield the elderly and disabled from reforms intended to apply only to non-working families with children.

Secondly, most non-elderly households currently receiving housing assistance already have a full- or part-time worker. Efforts to reform welfare have focused on moving households from welfare dependency to jobs and self-sufficiency.

Despite very strong work disincentives, 55 percent of non-elderly households receiving housing assistance report some earnings. The vast majority of those households (90 percent) report that earnings make up more than half their incomes. Families that already work a substantial number of hours per year are already "playing by the rules." Most are not likely to benefit from additional mandated work requirements.

Since he arrived at HUD, Secretary Cisneros has worked to make decent, safe, affordable housing a platform from which recipients of assistance can begin to graduate from dependence to economic independence and self-sufficiency. The Department has attempted to reform housing programs to bolster the ability of families who receive housing assistance to use it as a pathway out of poverty.

Last year, the Department proposed to include a 20 percent earnings disregard to enhance the rewards of work for public housing tenants. In addition, we proposed to cap the rents in public housing at market rates to allow more working families to stay in public housing after moving into the labor force. Rent

ceilings may help reduce the intense concentration of poverty in many public housing developments and retain working families as role models for non-working families. These steps would have provided public housing recipients with greater motivation and financial incentives to go to work. While Congress was supportive of these efforts, the legislation was never enacted.

We should, however, be cautious in setting our expectations about what program reforms can realistically deliver. Given high housing costs and the low skill levels of many welfare recipients, it may not be reasonable to expect a very high percentage of households to earn their way off of all government assistance. It is extremely difficult for even low-income working families to afford the costs of decent housing. To afford a two-bedroom home at HUD's national fair market rent paying 30 percent of income for rent, an unassisted family would require a full time wage of \$11.50 an hour.

It is likely that few welfare families will successfully increase their earnings from at or near the minimum wage to nearly \$12 an hour as a result of welfare reform. Evaluations of some typical government-sponsored employment and training programs have provided adult workers with increases in earnings of 10 to 20 percent.

Efforts to Coordinate Housing and Social Services

Our efforts have built upon several demonstrations that produce substantial positive effects when there is coordination of housing with social services and employment.

In the last decade, demonstration programs have produced encouraging signs that the combination of housing assistance closely coordinated with employment and training programs can put recipients on the path toward economic independence. HUD conducted two demonstrations to combine housing assistance and social services: Project Self-Sufficiency, begun in 1984, followed by Operation Bootstrap, started in 1989. Both produced encouraging results. For example, in Operation Bootstrap, families that received both housing and intensive employment and training services were significantly more likely to be employed and have earnings higher than the minimum wage than those receiving housing assistance alone.

Another particularly promising initiative for enhancing the earnings of households receiving housing assistance is the Gautreaux program in Chicago. The Gautreaux program resulted from a successful court case charging the Chicago Housing Authority with racial discrimination in its public housing program. Under the Gautreaux decision, the families in public housing are provided certificates and housing counseling to help them move out of the inner city to low-poverty neighborhoods in the suburbs. Research on the program suggests overwhelmingly positive effects for those who move out of the city. Suburban

movers were 25 percent more likely than city movers to have a job after their move, to have modestly higher incomes due to a greater number of work hours rather than higher wages, and their children had much lower school dropout rates than those who moved to city neighborhoods.

Waiver Authority

The Department believes that making work pay and playing by the rules can be enhanced by permitting innovation and experimentation at the non-Federal level. Efforts to promote such innovation depend on waiver authority granted by the Congress. The HUD Secretary currently has regulatory waiver authority, but not statutory waiver authority. Some State welfare reform waiver requests have included requests for HUD to waive specific HUD statutory requirements. Under current law, we have been unable to comply with any of these requests.

In its 1994 authorization bill, the Department sought broad authority--on a demonstration basis--to waive statutory requirements for well-run housing authorities with respect to occupancy and other policies. This would have given public housing authorities the option of providing financial incentives for responsible family behavior, such as regular school attendance or the timely immunization of children.

Greater waiver authority would also allow State and local governments greater flexibility in designing income disregards and rent rules to reduce work disincentives that housing

recipients face. For example, out of every dollar earned by a household with housing assistance, 30 cents immediately goes toward higher rent. For each dollar increase in earnings, some households would lose as much as 25 cents in total cash and non-cash income, due to a combination of lower public assistance benefits and higher rents. Only the expanded earned income tax credit--which provides an additional 40 cents for each dollar earned--allows families to keep 12 cents of each gross dollar earned.

Impact on HUD's Budget

I want to emphasize that changes in the welfare system could produce unintended effects on HUD's budget. HUD subsidy levels generally are calculated to make up the difference between thirty percent of household income and the actual rent. If welfare reform cause tenant incomes to decline -- through sanctions or other means -- current HUD program rules would automatically restore 30 percent of the income loss through higher housing subsidies (which HUD cannot afford).

The Administration's welfare reform proposal included provisions to hold HUD's budget harmless from declines in income due to welfare sanctions. If a tenant is sanctioned under the Administration's welfare reform proposal, the tenant would get no larger housing benefit from HUD. In contrast, the proposed Personal Responsibility Act introduced in the House provides no such hold-harmless protection for HUD's budget.

"Reinvention" of HUD

Secretary Cisneros has proposed a bold blueprint for changing HUD to meet America's housing priorities. This change is consistent with the general direction of providing increased flexibility for welfare program rules to the States. We are proposing to convert over a three-year period to a system of housing certificates for families and individuals in which all current public housing, assisted housing and Section 8 rental assistance programs, would be combined into a single housing assistance program administered by States and local governments.

Decisionmakers at the local and State levels should be given broad flexibility to design coordinated rental assistance programs and eligibility requirements, consistent with national objectives, that meet their needs and goals. We envision that a locality might, for example, focus a portion of its assistance on AFDC recipients who are making the transition to economic independence or to working poor families who need rental assistance to remain self-sufficient. The specifics of this new housing assistance program must be developed to be consistent with welfare reform.

Thank you for inviting me to testify before you today. I look forward to answering any questions you may have.

Testimony before
The Committee on Government Affairs
U.S. Senate
January 25, 1995

Robert Rector
The Heritage Foundation
(202-546-4400)

THE SCOPE OF THE WELFARE STATE

Introduction

The total annual cost of U.S. welfare spending now exceeds \$324 billion; this amounts to more than \$3,400 for each taxpaying household in the U.S. After adjusting for inflation, welfare spending is now 9 times greater than when Lyndon Johnson launched the War on Poverty in the mid-sixties.

As in the current welfare reform debate, each prior expansion of the welfare system has been rationalized as an "investment" which would save money in the long run. But these "investments" have led only to higher spending and escalating social problems.

Since the onset of the War on Poverty, the U.S. has spent over \$5.3 trillion on welfare. But during the same period, the official poverty rate has remained virtually unchanged; dependency has soared; the family has collapsed and illegitimacy has skyrocketed. And crime has escalated in direct proportion to the growth in welfare spending.

U.S. society can no longer tolerate open-ended growth in destructive welfare spending. A key goal of any serious welfare reform must be to limit the future growth of welfare spending.

Defining the U.S. Welfare System

The federal government currently runs over 75 interrelated and overlapping welfare programs. Many states operate independent state programs in addition to the federal programs. (A list of major welfare programs is attached.) The welfare system may be defined as the total set of government programs explicitly designed to assist poor and low income Americans. Welfare assistance has three ostensible objectives:

- 1) Sustaining Living Standards Through Cash and Non-Cash Transfers. Federal and state governments provide cash aid, food, housing and medical assistance. These programs are intended to directly raise an individual's material standard of living. Such aid directly substitutes for the private sector income which the welfare recipient is presumed to be incapable of earning for him or herself.
- 2) Promoting Self-Sufficiency. A smaller number of government programs are intended to increase the cognitive abilities, earnings capacity and living skills of lower income persons. Typical programs in this category would include government job training programs for low skilled individuals or special education programs targeted at disadvantaged persons.

3) Aiding economically distressed communities. The federal government also provides aid to governments in low income or economically distressed areas. The nominal intent of this aid is to broaden the economic opportunities within the community and thereby indirectly to benefit low-income persons who live there.

Targeted, Categorical, and Means-Tested Programs

An additional criterion for defining the welfare state is that welfare programs are individually means-tested, community targeted, or categorical. Community targeted programs provide assistance to communities which either have a high percentage of poor and low income persons or are "economically distressed". Categorical welfare programs provide aid to specific disadvantaged or needy groups such as migrant farm workers, homeless persons, or abandoned children.¹

"Individually means-tested" programs also provide aid directly to low income and poor persons. A wide variety of government programs such as cash, food, housing and medical care can be "means-tested". Roughly 95 percent of total welfare spending takes the form of means-tested aid directly to individuals. Means-tested programs restrict eligibility for benefits to persons who have "means" (i.e. non-welfare income) below a certain level. Individuals who have non-welfare income above a specified cut off level cannot receive aid. Thus, Food Stamps and public housing are "means-tested" programs, because benefits are limited to lower income persons. By contrast, Social Security and public schools are not "means-tested".²

Total Welfare Spending

Total federal and state spending on welfare programs was \$324.3 billion in FY 1993. Of the total, \$234.3 billion or 72% comes from federal funding and \$90 billion or 28% comes from state or local funds. But these figures significantly understate the role of the federal government in welfare. Many federal welfare programs require a state government contribution; in order for individuals within a state to receive aid from these federal programs, the state government must match or pay a certain share of federal spending in the state on that program. Out of the total of \$90 billion in state and local welfare spending described in this paper fully \$78.6 billion takes the form of state and local contributions to federally created welfare programs. Of total welfare spending of \$324 billion, only \$11.4 billion or 3.5% is spending for independent state welfare programs.³

Categories of Welfare Spending

As noted, the welfare system theoretically is designed to promote three proclaimed goals: to prop up material living standards; to promote self-sufficiency; and to expand economic opportunities within low-income communities. Federal and state governments operate a variety of welfare programs to meet these goals. Such programs include: cash aid programs; food programs; medical aid programs; housing aid programs; energy aid programs; jobs and training programs; targeted and means-

¹ Although a categorical program will not have formal financial means-test (as described in the main text), the nature of the group served as well as the method of operating the program will result in the bulk of assistance going to low income persons.

² Some programs such as Guaranteed Student Loans are formally means-tested but the means-test or income cut off is so high that the program benefits mainly the middle class. Despite the means-test, such programs should not be considered part of the welfare system, and have not been included in the programs listed or spending totals calculated for this paper.

³ Comprehensive figures on independent state and local welfare spending are difficult to obtain. It is possible that there is as much as \$10 to \$15 billion dollars in independent state and local welfare spending which is not included in this report. However, even if this extra state and local spending were included in the spending totals, the welfare system would still be overwhelmingly federal in structure.

tested education programs; social service programs; and urban and community development programs.

Cash Aid The federal government operates eight major means-tested cash assistance programs. Many state governments also operate independent cash programs termed General Assistance or General Relief. Total cash welfare spending by federal and state governments reached \$71.5 billion in FY 1993.

Food Aid The federal government provides 11 major programs providing food assistance to low income persons. Total food aid to low income persons equalled \$36 billion in FY 1993.

Housing Aid The federal government runs 14 major housing programs for low income persons. Many state governments also operate independent state public housing programs. Total housing aid for low income persons equalled \$23.5 billion in FY 1993.

Medical Aid The federal government runs 8 medical programs for low income persons. Many states operate independent medical General Assistance programs. Total medical aid equalled \$155.8 billion in FY 1993.^{*}

Energy Aid The federal government operates 2 programs to help pay the energy bills or to insulate the homes of persons with low incomes. Total spending equalled \$1.6 billion in FY 1993.

Education Aid The federal government runs 10 programs providing educational assistance to low income persons, disadvantaged minorities, or low-income communities. Total spending equalled \$17.3 billion in FY 1993.

Training and Jobs Programs The federal government currently operates 9 different jobs and training programs for low income persons, costing \$5.3 billion in FY 1993.

Targeted and Means-Tested Social Services The federal government also runs 11 programs providing special social services to low income persons. These programs cost \$8.4 billion in FY 1993.

Urban and Community Aid Programs The federal government runs 5 programs to aid economically distressed communities. These programs cost \$4.8 billion in FY 1993.

The Growth of the Welfare State

The welfare state, after remaining at low levels through the 1950's and early 1960's, has undergone explosive growth since the onset of the War on Poverty. In inflation adjusted terms, welfare spending has grown in every year except one since the mid-sixties.

* In constant dollars federal, state and local governments now spend 9 times as much on welfare as in 1964 when the War on Poverty was beginning. Welfare spending per capita in constant dollars is seven times as high as in 1964.

^{*} this figure includes the share of Medicare which goes to persons with incomes below the poverty level at a total cost of \$15.5 billion. These funds largely represent the "Medicaid buy in to Medicare" by which the Medicaid system pays the premiums for poor persons to enable them to enroll in and receive benefits from Medicare.

- * After adjusting for inflation welfare spending per capita today is five times as high as during the Great Depression when a quarter of the work force was unemployed.

- * Welfare spending is absorbing an ever greater share of the national economy. In 1964 welfare spending equalled 1.23 percent of Gross Domestic Product. By 1993, spending had risen to 5.1 percent of GDP; This was a record high, exceeding the previous peak set during the Great Depression.

- * Welfare spending in FY 1991, FY 1992, FY 1993 exceeded defense spending for the first time since the 1930's.

- * There are repeated claims that Ronald Reagan "slashed" welfare spending. In reality welfare spending grew during the 1980's, after adjusting for inflation. In 1993, per capita welfare spending in constant dollars was 43 percent higher than when President Reagan took office in 1980.

- * Contrary to some claims the growth in welfare spending has not been limited to medical aid. In constant dollars, per capita cash, food and housing aid is now 31 percent higher than in 1980 and 4.6 times higher than in 1964.

The Total Cost of the War on Poverty

The financial cost of the War on Poverty has been enormous. Between 1964 and 1994, welfare spending has cost the taxpayers \$5.3 trillion in constant 1993 dollars. This is greater than the cost of defeating Germany and Japan in World War II, after adjusting for inflation. Out of total welfare spending of \$5.3 trillion, cash welfare programs cost \$1.3 trillion. Medical programs assisting low income persons have cost \$2.1 trillion. Spending on food programs equalled \$602 billion, while housing and energy aid programs for low income persons have cost \$490 billion. Special education programs for low income children have cost \$319 billion, and jobs and training programs have cost \$215 billion. An additional \$230 billion was spent on special social services for the poor, and \$172 billion has been spent on development aid for low income communities.

Projected Growth of Welfare Spending

The notion that the U.S. would spend \$5.3 trillion on the War on Poverty would have dumbfounded most members of Lyndon Johnson's White House. In launching the War on Poverty, President Johnson did not promise an open-ended expansion to the welfare state. Instead, he spoke of a temporary investment which would help the poor to become self-sufficient and climb into main stream society. But the growth of the welfare state has been unending and relentless.

Moreover, there is not even the faintest glimmer of "light at the end of the tunnel" for the end of the War on Poverty. According to the Congressional Budget Office total annual welfare spending will rise to \$538 billion and 6 percent of GDP by 1999. By that year the U.S. will be spending more than two dollars on welfare for each dollar spent on national defense.

While a major portion of the projected growth of welfare spending is for medical services, other programs will show steady growth as well. For example, spending on cash, food, and housing programs are projected to grow by over a third during the next five years.

The Social Costs of the War on Poverty

Despite this massive spending, in many respects the fate of lower income Americans has become worse, not better, in the last quarter century. Today, one child in seven is being raised on welfare through the AFDC program. When the War on Poverty began roughly one black child in four in the U.S. was born out of wedlock. Today two out of three black children are born out of wedlock. Rapid increases in illegitimacy are occurring among low income whites as well; the illegitimate birth rate among low income white high school drop outs is 48 percent. Overall nearly a third of children in the U.S. are now born to single mothers.

In welfare as in most other things you get what you pay for. For thirty years the welfare system has paid for non-work and non-marriage and has achieved massive increases in both. By undermining the work ethic and rewarding illegitimacy, the welfare system insidiously generates its own clientele. The more that is spent the more people in apparent need of aid who appear. The government is trapped in a vicious cycle in which spending generates illegitimacy and dependency which in turn generates demands for even greater spending.

Reforming Welfare

Any fair observer would note that no matter how frequently policy makers "end welfare," the costs continue to rise. Welfare absorbed around 1.2 percent of GDP when Lyndon Johnson launched the War on Poverty in 1964; it had risen to over 5 percent by 1992. With a \$324 billion price tag, welfare spending now amounts to roughly \$8,500 for each poor person in the U.S. Worse, Congressional Budget Office figures show total welfare costs rising to a half trillion dollars, about 6 percent of GDP, by 1998.⁵

The long history of bogus welfare reforms, all of which were promised to save money but did not, leads one to one obvious conclusion. The only way to limit the growth of welfare spending is to do just that: limit the growth of welfare spending. The welfare system must be put on a diet.

Welfare entitlements should be ended. Most separate federal non-medical welfare programs should be eliminated and the funds should be pooled into a single welfare block grant to the states. The future growth of federal non-medical means-tested welfare spending should then be capped at 3 percent per annum. Comprehensive reform along these lines is provided in: "The Welfare Reform Act of 1994" (S.2134) introduced by Senators Lauch Faircloth, Charles Grassley and Hank Brown and the companion bill H.R. 4566 introduced by Jim Talent, Tim Hutchinson and Charles Canady in the House of Representatives.

Similarly the entitlement nature of Medicaid should be eliminated. Medicaid and other means-tested medical programs should be converted into a single medical block grant for the states which would increase at the rate of medical inflation.

By slowing the outpouring from the federal welfare spigot, such a welfare spending limit would gradually reduce the subsidization of dysfunctional behavior: dependency, non-work, and illegitimacy. The spending controls would send a warning signal to state welfare bureaucracies. Cushioned by a steady and increasing flow of federal funds in the past, most bureaucracies have found no need to grapple with the tough and controversial policies needed to really reduce illegitimacy and dependency. With a cap on the growth of future federal funds, state governments

⁵ These figures represent estimated federal, state and local spending on means-tested welfare programs and aid to economically disadvantaged communities. The Congressional Budget Office estimates only future federal spending. Future state and local spending figures were estimated separately by assuming that the ratio of federal spending to state and local spending on specific programs would remain unchanged. This is a reasonable assumption since the required state contribution to most federal welfare programs is legislatively established at a fixed percentage of federal spending on that program. These percentages change little over time.

would, for the first time, be forced to adopt innovative and aggressive policies that would reduce the welfare rolls.

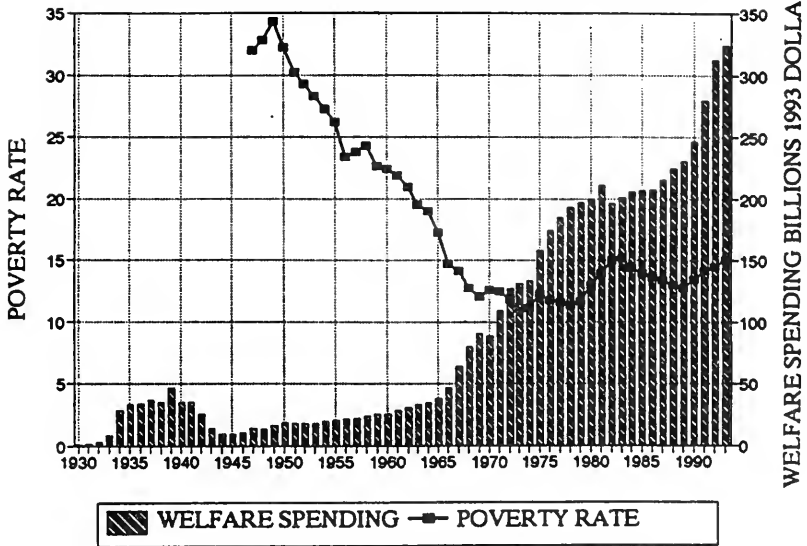
While such a block grant approach would give the state governments infinitely more flexibility than the current system, we should not have a system of "zero responsibility block grants". The use of the block grant funds must be governed by a few basic moral principles established at the federal level. These principles should include:

- 1) Limit federal subsidies for future illegitimate births. Insist that federal funds no longer be used to provide direct cash, food, and housing subsidies to women under 21 who in the future have children out-of wedlock. States who believe it is wise to continue the current system of direct welfare benefits to subsidize illegitimacy in the future could do so with their own state funds, but they could no longer use federal money for that purpose.*
- 2) Provide an improved quality of life for those children who will continue to be born out-of-wedlock in the future by channeling those federal welfare funds which, under the current system, go directly to unwed mothers, into alternative and superior forms of care, such as: adoption services and closely supervised group homes for young unmarried women and their children.
- 3) Insist that in the future mothers who receive federally funded welfare benefits must establish the paternity of their children.
- 4) Insist that federal funds not be used to provide automatic increases in welfare benefits to women who give birth to additional children while already receiving welfare.
- 5) Insist on serious but sensible work requirements for welfare recipients receiving federally funded aid, focusing those requirements on the most employable welfare recipients first (such as single able-bodied males and fathers in two parents families), rather than on single mothers with infant children.

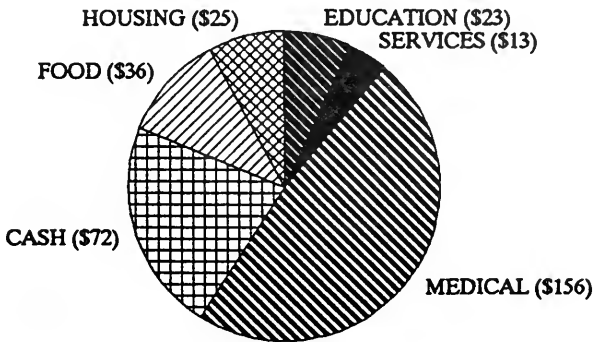
This is not "conservative micro-management". Under the system I am proposing hundreds of separate federal welfare programs would be pooled into a single block grant thereby rescinding tens of thousands of pages of current federal regulation. These regulations should be replaced by 10 or 20 pages of simple federal principles which would insure that federal welfare funds were used to promote marriage rather than illegitimacy and work rather than dependency.

* This limitation should apply only to women who have children one year after the enactment of reform legislation, not to those who have already had children out of wedlock.

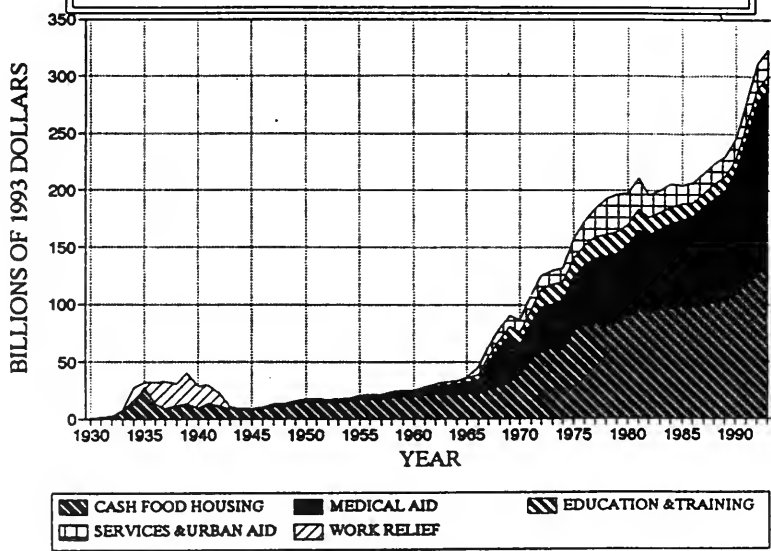
THE POVERTY PARADOX RELATION OF WELFARE SPENDING TO POVERTY



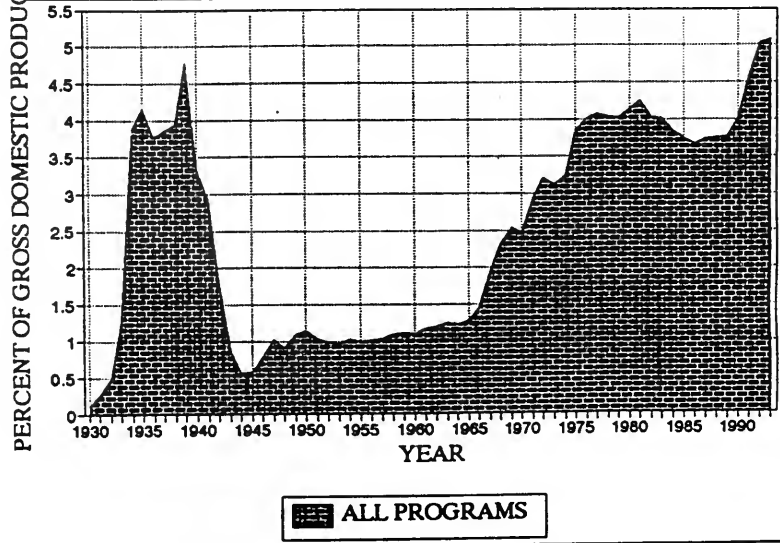
THE 1993 WELFARE STATE SPENDING IN BILLIONS



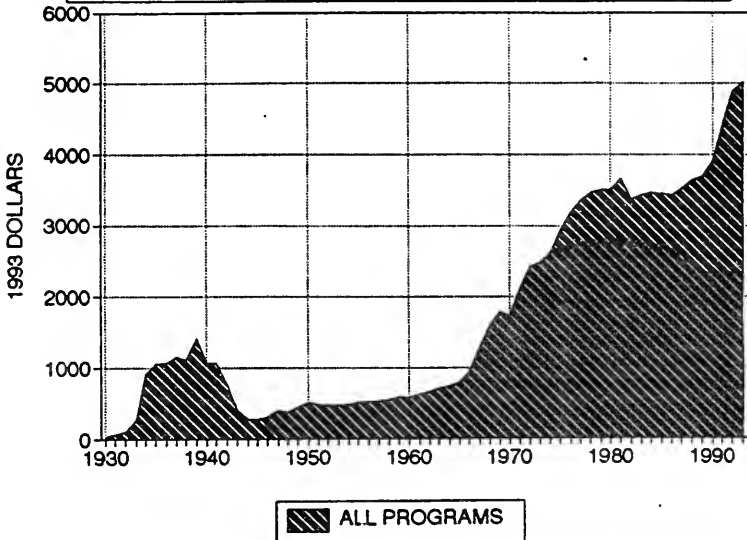
WELFARE SPENDING BY PROGRAM TYPE FEDERAL STATE AND LOCAL



TOTAL WELFARE SPENDING AS SHARE OF GDP FEDERAL STATE AND LOCAL SPENDING

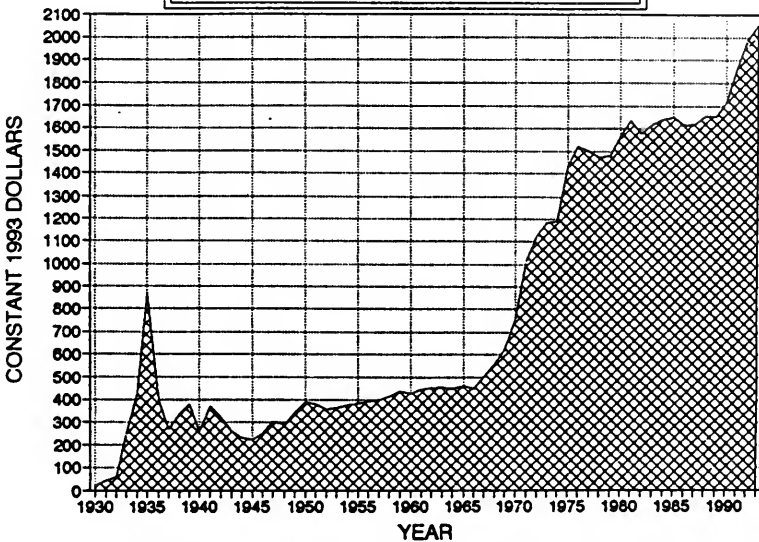


WELFARE SPENDING PER LOW INCOME PERSON CONSTANT 1993 DOLLARS



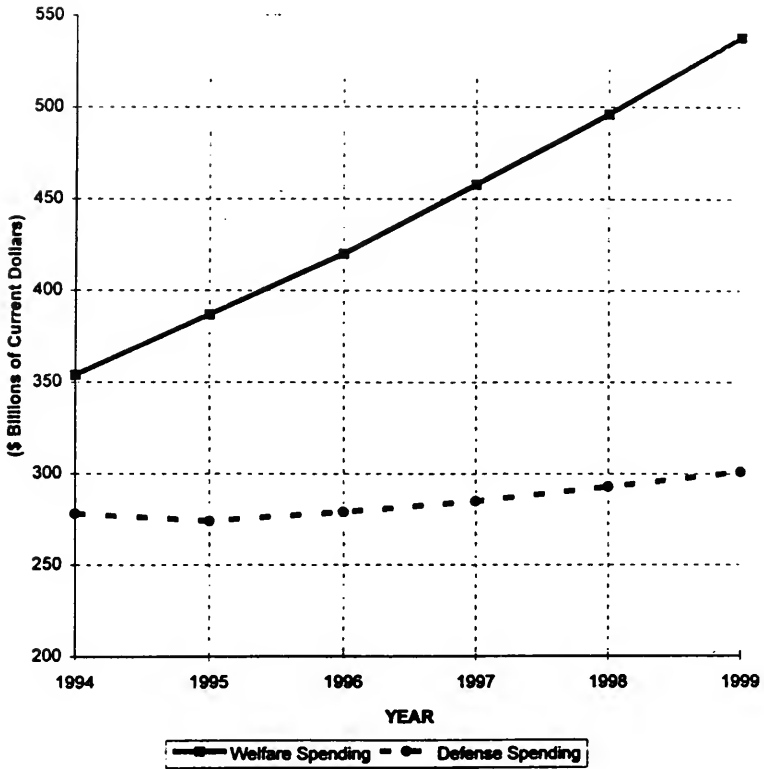
Low-income persons means the least affluent one-quarter of the U. S. population.

WELFARE CASH FOOD & HOUSING AID PER LOW INCOME PERSON



Low-income persons means the least affluent one-quarter of the U. S. population.

PROJECTIONS OF DEFENSE AND WELFARE SPENDING



THE U.S. WELFARE SYSTEM

MEANS-TESTED ASSISTANCE PROGRAMS AND AID TO ECONOMICALLY DISTRESSED COMMUNITIES

CASH AID

CASH 01) Aid to Families with Dependent Children
Budget Account Number: 75-1501-0-1-609
FY 1993: federal \$13,767.2 million state \$11,426.8 million

CASH 02) Supplemental Security Income
Budget Account Number: 75-0406-0-1-609
FY 1993: federal \$22,642 million state \$3,300 million

CASH 03) General Assistance: Cash
Budget Account Number: none
FY 1993: state \$3,340 million (estimate)

CASH 04) Earned Income Tax Credit
Budget Account Number: 20-0906-0-1-609
FY 1993: federal \$13,663 million

CASH 05) Foster Care: Title IV E
Budget Account Number: 75-1545-1-1-506
FY 1993: federal \$2,532.4 million state \$1,779.352 million

CASH 06) Assistance to Refugees and Cuban/Haitian Entrants
Budget Account Number: 75-1503-0-1-609
FY 1993: federal \$65.122 million

CASH 07) Emergency Assistance to Needy Families with Children
Budget Account Number: 75-1501-0-1-609
FY 1993: federal \$202.19 million state \$202.19 million

CASH 08) Adoption Assistance
Budget Account Number: 75-1545-1-1-506
FY 1993: federal \$273.382 million state \$155.828 million

CASH 09) General Assistance to Indians
Budget Account Number: 14-2100-0-1-452
FY 1993: federal \$106.114 million

MEDICAL AID

MEDICAL 01) Medicaid
Budget Account Number: 75-0512-0-1-551
FY 1993: federal \$75,744 million state \$56,051 million

MEDICAL 02) General Assistance: Medical Care
Budget Account Number: none
FY 1993: state \$5,204 million (estimate)

MEDICAL 03) Indian Health Services
Budget Account Number: 75-0390-0-1-551
FY 1993: federal \$1,495.454 million

MEDICAL 04) Maternal and Child Health Services Block Grant
Budget Account Number: 75-0350-0-1-550
FY 1993: federal \$664.530 million state \$423.6 million

MEDICAL 05) Community Health Centers
Budget Account Number: 75-0350-0-1-550
FY 1993: federal \$558.808 million

MEDICAL 06) Medical Assistance to Refugees and Cuban/Haitian Entrants
Budget Account Number: 75-1503-0-1-609
FY 1993: federal \$98.043 million

MEDICAL 07) Migrant Health Services
 Budget Account Number: 75-0350-0-1-550
 FY 1993: federal \$57.306 million

MEDICAL 08) Medicare for Persons with Incomes Below the Federal Poverty Threshold
 Budget Account Number: None
 FY 1993: federal \$15,516.800 million

FOOD AID

FOOD 01) Food Stamps
 Budget Account Number: 12-3505-0-1-605
 FY 1993: federal \$23,577 million state \$1,628 million

FOOD 02) School Lunch Program
 Budget Account Number: 12-3539-0-1-605
 FY 1993: federal \$4,670.9 million

FOOD 03) Special Supplemental Food Program for Women, Infants, and Children (WIC)
 Budget Account Number: 12-3510-0-1-605
 FY 1993: federal \$2,846.5 million

FOOD 04) The Emergency Food Assistance Program
 Budget Account Number: 12-3635-0-1-351
 FY 1993: federal \$163.4 million

FOOD 05) Nutrition Program for the Elderly
 Budget Account Number: 12-3503-0-1-351
 FY 1993: federal \$573.939 million state \$65.007 million

FOOD 06) School Breakfast Program
 Budget Account Number: 12-3539-0-1-605
 FY 1993: federal \$866.0 million

FOOD 07) Child and Adult Care Food Program (Means-Tested and Low-Income Component)
 Budget Account Number: 12-3539-0-1-605
 FY 1993: federal \$1,225.704 million

FOOD 08) Summer Food Service Program for Children
 Budget Account Number: 12-3539-0-1-605
 FY 1993: federal \$210.4 million

FOOD 09) Needy Families Food Distribution Program (Commodity Food Distribution Program on Indian Reservations in Lieu of Food Stamps)
 Budget Account Number: 12-3503-0-1-605
 FY 1993: federal \$61.968 million

FOOD 10) Commodity Supplemental Food Program (CSFP) for Mothers, Children, and Elderly Persons
 Budget Account Number: 12-3512-0-1-605
 FY 1993: federal \$110.58 million

FOOD 11) Special Milk Program (Free Segment)
 Budget Account Number: 12-3502-0-1-605
 FY 1993: federal \$1.44 million

HOUSING AID

HOUSING 01) Section 8 Lower-Income Housing Assistance
 Budget Account Number: 86-0164-0-1-604; 86-0194-0-1-604
 FY 1993: federal \$13,288 million

HOUSING 02) Low-Rent Public Housing
 Budget Account Number: 86-0163-0-1-604; 86-0164-0-1-604
 FY 1993: federal \$3,726.8 million

HOUSING 03) Section 502 Rural Housing Loans for Low-Income Families
 Budget Account Number: 12-2081-0-1-371
 FY 1993: federal \$1,842.989 million

HOUSING 04) Section 236 Interest Reduction Payments
 Budget Account Number: 86-0148-0-1-604
 FY 1993: federal \$634.744 million

HOUSING 05) Section 515 Rural Rental Housing Loans

Budget Account Number: 12-2081-0-1-371

FY 1993: federal \$573.857 million

HOUSING 06) Section 521 Rural Rental Assistance Payments

Budget Account Number: 12-0137-0-1-604

FY 1993: federal \$393.922 million

HOUSING 07) Section 235 Homeownership Assistance for Low-Income Families

Budget Account Number: 86-0148-0-1-604

FY 1993: federal \$62.033 million

HOUSING 08) Section 101 Rent Supplements

Budget Account Number: 86-0129-0-1-604

FY 1993: federal \$55.1 million

HOUSING 09) Indian Housing Improvement Grants

Budget Account Number: 14-2301-0-1-452

FY 1993: federal \$19.922 million

HOUSING 10) Section 504 Rural Housing Repair Loan Grants for Very Low-Income Rural Homeowners

Budget Account Number: 12-2081-0-1-371

FY 1993: federal \$11.330 million

HOUSING 11) Section 514 Farm Labor Housing Loans

Budget Account Number: 12-2081-0-1-371

FY 1993: federal \$16.299 million

HOUSING 12) Section 523 Rural Housing Self-Help Technical Assistance Grants and Section 523 Rural Housing Loans

Budget Account Number: 12-2006-0-0-604 (grants); 12-2080-0-1-371 (loans)

FY 1993: federal \$11.142 million

HOUSING 13) Section 516 Farm Labor Housing Grants

Budget Account Number: 12-2004-0-1-604

FY 1993: federal \$15.936 million

HOUSING 14) Section 533 Rural Housing Preservation Grants for Low-Income Rural Homeowners

Budget Account Number: 12-2070-0-1-604

FY 1993: federal \$23 million

HOUSING 15) Public Housing Expenditures by State Governments

Budget Account Number: none

FY 1993: state \$2,856 (estimate)

ENERGY AID**ENERGY 01) Low-Income Home Energy Assistance Program**

Budget Account Number: 75-1502-0-1-609

FY 1993: federal \$1,318.961 million state \$92.327 million

ENERGY 02) Weatherization Assistance

Budget Account Number: 89-0215-0-1-999

FY 1993: federal \$182.368 million

EDUCATION AID**EDUCATION 01) Pell Grants**

Budget Account Number: 91-0200-0-1-502

FY 1993: federal \$6,098.572 million

EDUCATION 02) Head Start

Budget Account Number: 75-1536-0-1-506

FY 1993: federal \$2,776.041 million state \$694 million

EDUCATION 03) Title One Grants to Local Education Authorities for Educationally Deprived Children Under the Elementary and Secondary Education Act

Budget Account Number: 91-0900-0-1-501

FY 1993: federal \$6,139.868 million

EDUCATION 04) Supplemental Educational Opportunity Grants

Budget Account Number: 91-0200-0-1-502

FY 1993: federal \$588.108 million

EDUCATION 05) Chapter One Migrant Education Program

Budget Account Number: 91-0900-0-1-501

FY 1993: federal \$302.773 million

EDUCATION 06) Special Programs for Students from Disadvantaged Backgrounds (TRIO Programs)

Budget Account Number: 91-0201-0-1-502

FY 1993: federal \$388.165 million

EDUCATION 07) State Student Incentive Grants (SSIG) for Needy Students

Budget Account Number: 91-0200-0-1-502

FY 1993: federal \$78.003 million state \$78.003 million

EDUCATION 08) Fellowships for Graduate and Professional Study for Disadvantaged Minorities

Budget Account Number: 91-0900-0-1-502

FY 1993: federal \$61.628 million

EDUCATION 09) Follow Through

Budget Account Number: 91-1000-0-1-501

FY 1993: federal \$8.478 million

EDUCATION 10) Even Start

Budget Account Number: 91-0900-0-1-501

FY 1993: federal \$90.122 million

JOBS AND TRAINING AID**TRAINING 01) Training for Disadvantaged Adults and Youth (JTPA II-A), Block Grant**

Budget Account Number: 16-0174-0-1-504

FY 1993: federal \$1,691.7 million

TRAINING 02) Summer Youth Employment Program (JTPA II-B)

Budget Account Number: 16-0174-0-1-504

FY 1993: federal \$849.412 million

TRAINING 03) Job Corps (JTPA-IV)

Budget Account Number: 16-0174-0-1-504

FY 1993: federal \$949.287 million

TRAINING 04) Senior Community Service Employment Program

Budget Account Number: 16-0175-0-1-504

FY 1993: federal \$389.046 million state \$43.23 million

TRAINING 05) Job Opportunity and Basic Skills Training (JOBS)

Budget Account Number: 75-1509-0-1-504

FY 1993: federal \$736.500 million state \$456.630 million

TRAINING 06) Foster Grandparents

Budget Account Number: 44-0103-0-1-506

FY 1993: federal \$38.923 million state \$8.95 million

TRAINING 07) Senior Companions

Budget Account Number: 44-0103-0-1-506

FY 1993: federal \$14.571 million state \$3.35 million

TRAINING 08) Migrant and Seasonal Farm Workers Training Program

Budget Account Number: 16-0174-0-1-504

FY 1993: federal \$78.303 million

TRAINING 09) Indian and Native American Employment and Training Program

Budget Account Number: 16-0174-0-1-504

FY 1993: federal \$61.871 million

SOCIAL SERVICES**SERVICES 01) Social Services Block Grant (Title XX)**

Budget Account Number: 75-1634-0-1-506

FY 1993: federal \$2,784.745 million state \$2.200 million

SERVICES 02) Community Services Block Grant

Budget Account Number: 75-1504-0-1-506

FY 1993: federal \$442.830 million

SERVICES 03) Legal Services Corporation

Budget Account Number: 20-0501-0-1-752

FY 1993: federal \$360.563 million

SERVICES 04) Emergency Food and Shelter Program

Budget Account Number: 58-0103-0-1-605

FY 1993: federal \$128.992 million

SERVICES 05) Social Services for Refugees and Cuban/Haitian Entrants

Budget Account Number: 75-1503-0-1-609

FY 1993: federal \$68.685 million

SERVICES 06) Title X Family Planning

Budget Account Number: 75-0350-0-1-550

FY 1993: federal \$162.646 million

SERVICES 07) Volunteers in Service to America (VISTA)

Budget Account Number: 44-0103-1-0-506

FY 1993: federal \$43.311 million

SERVICES 08) Title III b Supportive Services Under the Older Americans Act

Budget Account Number: 75-0142-0-1-506

FY 1993: federal \$296.844 million

SERVICES 09) Daycare Assistance for Families "At-Risk" of Welfare Dependence

Budget Account Number: 75-1501-0-1-609

FY 1993: federal \$264.316 million

SERVICES 10) Child Care and Development Block Grant

Budget Account Number: 75-1515-0-1-609

FY 1993: federal \$ 892.711 million

SERVICES 11) Child Care for Recipients (and Ex-Recipients) of AFDC

Budget Account Number: 75-1501-0-1-609

FY 1993: federal \$595.568 million

COMMUNITY AND DEVELOPMENT AID**COMMUNITY AID 01) Community Development Block Grant**

Budget Account Number: 86-0162-0-1-451

FY 1993: federal \$4,243.374 million

COMMUNITY AID 02) Urban Development Action Grant Program (UDAG)

Budget Account Number: 86-0170-0-1-451

FY 1993: federal \$51.314 million

COMMUNITY AID 03) Economic Development Administration

Budget Account Number: 13-2050-0-1-452

FY 1993: federal \$26.356 million

COMMUNITY AID 04) Appalachian Regional Development Program

Budget Account Number: 46-0200-0-1-452

FY 1993: federal \$144.697 million

COMMUNITY AID 05) Legalization Impact Aid

Budget Account Number: 75-1508-0-1-506

FY 1993: federal \$325.642 million

FUTURE WELFARE SPENDING

PROJECTED WELFARE SPENDING	AMOUNTS IN MILLIONS					
	1994	1995	1996	1997	1998	1999
TOTAL FEDERAL AID	252,111	278,039	296,031	324,017	348,793	375,899
TOTAL STATE AID	101,714	111,169	121,797	134,135	147,484	161,909
TOTAL AID	353,825	387,208	419,828	458,152	496,257	537,808

CASH

	BUDGET CODE	AMOUNTS IN MILLIONS					
		1994	1995	1996	1997	1998	1999
CASH AID- FEDERAL		66,821	64,464	64,687	71,771	78,248	86,872
AFDC	75-1501-0-1-809	18,478	17,042	17,586	18,022	18,589	19,206
SSI	75-0408-0-1-809	24,856	24,483	24,477	26,338	32,122	35,052
Earned Income Tax Credit	20-0908-0-1-809	10,810	13,348	16,507	20,065	20,838	21,670
Foster Care/Adoption Assistance	75-1545-1-1-508	3,025	3,355	3,757	4,048	4,371	4,710
Cash Assistance to Refugees	75-1503-0-1-809	120	125	129	132	136	139
General Assistance to Indians	14-2100-0-1-452	132	145	151	165	180	195
CASH AID- STATE		24,198	24,928	25,891	27,898	29,066	30,638
AFDC	75-1501-0-1-809	13678.74	14144.9	14579.8	14958.26	15428.9	15941
SSI	75-0408-0-1-809	5177.76	5141.43	5140.17	5180.98	5745.02	7360.82
General Assistance: Cash	none	3,529	3,729	3,940	4,163	4,399	4,648
Foster Care/Adoption Assistance	75-1545-1-1-508	1724.25	1912.35	2141.49	2307.83	2491.47	2684.7
CASH AID (COMBINED FEDERAL & STATE)		79,129	85,428	90,388	99,341	106,318	111,687

MEDICAL

	BUDGET CODE	1994	1995	1996	1997	1998	1999
MEDICAL AID- FEDERAL		196,637	118,267	133,919	148,988	164,987	184,746
Medicaid	75-0512-0-1-551	85,852	98,190	106,119	120,927	135,362	151,050
Indian Health Services	75-0390-0-1-551	1,839	1,885	1,745	1,801	1,859	1,819
Maternal & Child Health Services	75-0350-0-1-550	887	888	888	710	733	750
Community Health Centers	75-0350-0-1-550	524	599	627	645	662	681
Medical Assistance for Refugees	75-1503-0-1-809	136	143	146	151	154	159
Migrant Health Centers	75-0350-0-1-550	51	50	81	63	65	67
Medicare for Persons w/ Incomes Below Poverty	75-0511-0-1-550	17,648	18,914	22,233	24,062	27,252	30,113
MEDICAL AID- STATE		89,664	77,807	84,877	96,838	108,639	129,263
Medicaid	75-0512-0-1-551	83530.48	71187.3	80008.1	89485.96	100168	111777
General Assistance: Medical Care	none	5,584	5,992	6,429	6,890	7,402	7,942
Maternal & Child Health Services	75-0350-0-1-550	439.68	427.52	440.32	454.4	469.12	483.84
MEDICAL AID (COMBINED FEDERAL & STATE)		178,991	196,074	228,496	248,797	274,126	304,940

FOOD

	BUDGET CODE	1994	1995	1996	1997	1998	1999
FOOD AID- FEDERAL		36,398	36,448	37,631	39,326	41,148	42,908
Food Stamps	12-3505-0-1-805	24,270	24,740	25,350	26,420	27,840	28,740
Child Nutrition	12-3538-0-1-805	7,014	7,447	7,926	8,424	8,925	9,481
WIC	12-3510-0-1-805	3,179	3,289	3,378	3,486	3,561	3,657
Emergency Food Assistance	12-3635-0-1-351	122	123	128	130	133	137
	12-0350-0-1-550						
Nutrition Program for the Elderly	75-0142-0-1-508	808	829	843	861	878	898
Needy Families Food Distribution	12-3503-0-1-805	71	95	78	74	78	78
Commodity Supplemental Food Program	12-3512-0-1-805	113	107	110	113	116	119
Special Milk Program	12-3502-0-1-805	18	18	18	18	18	18
FOOD AID- STATE		1823.68	1553.58	1681.96	1687.91	1732.96	1861.18
Food Stamps	12-3505-0-1-805	1456.2	1484.4	1521	1585.2	1658.4	1724.4
	12-0350-0-1-550						
Nutrition Program for the Elderly	75-0142-0-1-508	86.88	88.19	70.95	72.71	74.58	78.78
FOOD AID (COMBINED FEDERAL & STATE)		38,918	38,992	39,223	40,984	42,881	44,795

HOUSING

	BUDGET CODE	1994	1995	1996	1997	1998	1999
HOUSING AID- FEDERAL		22677	26618	28442	27484	28860	28912
Section 8 Lower-Income Housing	86-0164-0-1-604	17,303	18,569	21,161	22,058	23,075	24,128
Low-Rent Public Housing	86-0163-0-1-604	2,633	2,532	2,724	2,767	2,672	2,949
	12-2081-0-1-371						
Rural Housing Assistance	12-4141-0-3-371	1400	1468	1354	1183	571	250
Section 236 Interest Reduction Payments	86-0148-0-1-604	666	645	625	625	624	624
Section 521 Rural Rental Assistance Payments	12-0137-0-1-604	390	451	495	542	591	645
Section 235 Homeownership Assistance	86-0148-0-1-604	50	82	80	21	13	4
Section 101 Rent Supplements	86-0129-0-1-604	57	58	61	63	64	66
Indian Housing Improvement Grants	14-2301-0-1-452	132	145	151	166	169	195
Section 523 Rural Housing Self-Help Assistance	12-2008-0-0-604	11	12	12	13	14	14
Section 516 Farm Labor Housing Grants	12-2004-0-1-604	12	13	16	11	12	12
Section 533 Rural Housing Preservation Grants	12-2070-0-1-604	23	23	23	24	25	25
HOUSING AID- STATE		2,886	3,227	3,647	4,121	4,657	5,263
Public Housing Expenditures	none	2,856	3,227	3647	4121	4657	5262
HOUSING AID (COMBINED FEDERAL & STATE)		25,633	28,345	30,329	31,605	32,767	34,174

MEANS-TESTED EDUCATION

	BUDGET CODE	1994	1995	1996	1997	1998	1999
EDUCATION AID- FEDERAL		16,704	17,502	18,288	18,791	19,293	18,811
Per Grants	91-0200-0-1-502	6,114	6,398	6,843	7,035	7,222	7,416
Head Start	75-1536-0-1-506	3,015	3,320	3,445	3,538	3,633	3,731
Title I Grants for Educationally Deprived Children	91-0900-0-1-501	6,141	6,315	6,490	6,667	6,845	7,028
Supplemental Educational Opportunity Grants	91-0200-0-1-502	583	585	600	617	633	650
Chapter 1 Migrant Education	91-0900-0-1-501	304	306	313	321	330	339
TRIO Programs	91-0201-0-1-502	390	414	428	440	452	464
State Student Incentive Grants	91-0200-0-1-502	72	73	75	77	79	82
Even Start	81-0900-0-1-501	85	91	94	96	99	101
EDUCATION AID- STATE		825.75	903	936.25	961.5	987.25	1014.75
Head Start	75-1536-0-1-506	753.75	830	861.25	884.5	908.25	932.75
State Student Incentive Grants	91-0200-0-1-502	72	73	75	77	79	82
EDUCATION AID (COMBINED FEDERAL & STATE)		17,530	18,405	19,224	19,753	20,280	20,826

ENERGY

	BUDGET CODE	1994	1995	1996	1997	1998	1999
ENERGY AID- FEDERAL		1,332	2,182	1,684	1,726	1,779	1,814
Low-Income Home Energy Assistance	75-1502-0-1-609	1,135	1,878	1,471	1,508	1,546	1,584
Weatherization Assistance	89-0215-0-1-999	197	208	213	216	224	230
ENERGY AID- STATE		79.48	138.32	102.97	106.88	108.22	110.88
Low-Income Home Energy Assistance	75-1502-0-1-609	78.45	138.32	102.97	105.58	108.22	110.88
ENERGY AID (COMBINED FEDERAL & STATE)		1,411	2,320	1,787	1,832	1,878	1,925

JOB TRAINING

	BUDGET CODE	1994	1995	1996	1997	1998	1999
JOBS & TRAINING- FEDERAL		4,244	4,324	4,838	4,682	4,818	4,911
Training for Disadvantaged Adults & Youth	16-0174-0-1-504	1,045	992	1,014	1,042	1,070	1,098
Summer Youth Employment Program	16-0174-0-1-504	811	814	904	929	954	960
Job Corps	16-0174-0-1-504	990	1,002	1,043	1,084	1,125	1,158
Senior Community Service Employment	16-0175-0-1-504	399	411	423	434	448	458
JOBS	75-1509-0-1-504	700	860	900	930	950	960
Foster Grandparents	44-0103-0-1-506	66	67	70	72	74	76
Senior Companions	44-0103-0-1-506	30	30	31	32	33	34
Migrant & Seasonal Farm Workers Training	16-0174-0-1-504	81	84	87	91	94	97
Native American Employment & Training Program	16-0174-0-1-504	82	84	86	88	70	72
JOBS & TRAINING- STATE		558.77	606.72	627.76	648.26	662.67	670.68
Senior Community Service Employment	16-0175-0-1-504	43.89	45.21	46.53	47.74	49.06	50.38
JOBS	75-1509-0-1-504	489.8	533.2	558	578.6	589	595.2
Foster Grandparents	44-0103-0-1-506	15.18	15.41	16.1	16.56	17.02	17.48
Senior Companions	44-0103-0-1-506	6.9	6.9	7.13	7.36	7.59	7.82
JOBS & TRAINING AID (COMBINED FEDERAL & STATE)		4,800	4,935	5,166	5,330	5,479	5,582

MEANS-TESTED SOCIAL SERVICES

	BUDGET CODE	1994	1995	1996	1997	1998	1999
SOCIAL SERVICES- FEDERAL		6,212	6,692	6,693	6,716	6,661	6,623
Social Services Block Grant	75-1634-0-1-506	2,800	2,800	2,800	2,800	2,800	2,800
Community Services Block Grant	75-1504-0-1-506	467	476	485	498	511	525
Legal Services Corporation	20-0501-0-1-752	395	410	421	432	443	455
Emergency Food & Shelter Program	58-0103-0-1-605	130	134	137	141	145	148
Social Services for Refugees	75-1503-0-1-606	81	82	84	86	89	91
Title X Family Planning	75-0350-0-1-550	157	170	188	193	199	204
VISTA	44-0103-1-0-506	41	43	44	45	47	48
Title IIIb Supportive Services	75-0142-0-1-506	305	312	321	329	338	347
Child Care Block Grant	75-1515-0-1-609	836	1,256	1,213	1,191	979	1,005
SOCIAL SERVICES- STATE		2212	2212	2212	2212	2212	2212
Social Services Block Grant	75-1634-0-1-506	2212	2212	2212	2212	2212	2212
SOCIAL SERVICES (COMBINED FEDERAL & STATE)		7,424	7,904	7,905	7,927	7,763	7,835

COMMUNITY DEVELOPMENT

	BUDGET CODE	1994	1995	1996	1997	1998	1999
DEVELOPMENT AID		4,989	5,108	5,309	5,563	5,833	6,003
Community Development Block Grant	86-0162-0-1-451	3,787	4,273	4,641	4,691	5,142	5,289
Urban Development Action Grants	86-0170-0-1-451	50	35	35	15	7	0
Economic Development Assistance	13-2050-0-1-452	297	355	407	415	429	447
Appalachian Regional Development	46-0200-0-1-452	178	201	228	242	255	267
Legalization Impact Aid	75-1508-0-1-506	699	244	0	0	0	0

Testimony before the Committee on Governmental Affairs
United States Senate
January 25, 1995

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Members of the Committee:

My name is Mark Greenberg. I am a Senior Staff Attorney at the Center for Law and Social Policy (CLASP). CLASP is a non-profit organization engaged in research, policy analysis, and advocacy on issues affecting low income families. My primary area of work concerns federal and state welfare reform efforts.

In the current debate, there have been numerous proposals for restructuring the federal-state relationship in programs for low income individuals and families. Some proposals involve very specific changes in the rules governing eligibility for federally assisted programs. However, a frequent theme in many proposals and in much of the discussion is the call for greater state flexibility. Some proposals envision block granting existing entitlement programs, with or without significant initial reductions in program funding. Others involve efforts to provide greater state flexibility within the current structure of means-tested entitlements.

In the current federal structure, a number of basic assistance programs - AFDC, Food Stamps, SSI, operate on the principle of entitlement - government sets a formula for determining eligibility, and is then committed to providing assistance to those who meet the eligibility requirements. In contrast, in a block grant structure, the federal government would establish a level of federal spending, allocate funds to the states, and then let states determine how to spend it, without a duty to provide assistance to all who qualify.

There seem to be three principal arguments articulated for shifting from entitlements to block grants: fostering flexibility; controlling spending; and ending "the entitlement mentality".

In my testimony this morning, I wish to make the following points:

- States should have more flexibility in some, but not all, aspects of federally assisted entitlement programs.
- It is not necessary to shift from entitlements to block grants to foster state flexibility. It is possible to have a block grant structure which is not very flexible, and it is possible to

provide states with substantially more flexibility without moving to a block grant structure.

- Nor is it necessary to shift from an entitlement to a block grant structure to reduce federal expenditures, if that is Congress' goal. Moreover, ending entitlements would **generates** federal savings in a very troubling way -- by creating a structure in which programs are unable to respond in times of increased need.
- The principle of entitlement does not mean that programs must provide aid without expecting obligations on the part of program beneficiaries. It simply means that **after** government has determined appropriate eligibility conditions, government will **provide** assistance to those who meet the conditions.

Accordingly, retaining and reforming the existing entitlement structure, rather than block-granting entitlements, is the approach which would best balance goals of addressing **federal program** objectives, assuring accountability in use of federal funds, allowing state flexibility, and providing for responsive and fair treatment to individuals.

The Argument for Some Flexibility

It is sometimes assumed that the goal of federal policy should be to maximize state flexibility. However, there are some situations where more state flexibility is appropriate, and others where it is not. Let me suggest some factors:

The argument for greater flexibility seems strongest in instances where:

- There is agreement on the problem to be addressed, but no consensus about the best way to address it;
- There is the potential to learn from state variations in a way that can improve federal policy-making over time;
- Substantial variations in state or local conditions dictate against mandating a particular approach;
- There is no countervailing federal interest in uniformity;
- The state is committing its own resources in addition to federal resources to the effort.

Conversely, the argument for state flexibility is weakest in instances where a range of approaches would impair the ability to address a problem of national concern, or to know whether the problem is being addressed; where variations in local circumstances are a less significant factor; and where the funding for an effort is purely federal funding.

To illustrate, let me draw a contrast between the Job Opportunities and Basic Skills Training Program (JOBS) and the Food Stamp Program.

The JOBS Program under the Family Support Act has two principal goals: to increase the labor market success of families receiving AFDC, and to ensure substantial participation in employment-directed activities by families receiving assistance. While there may be general agreement on these broad goals, there is not agreement about the best way to fulfill them. Should a state emphasize education and training or work experience or job search? Should a state allow access to postsecondary education? Should a state make extensive usage of wage subsidy programs? In each of these areas, the existing research is not so clear as to mandate a single national approach. Moreover, the answer could well be different in a community with 3% unemployment than in a community with 10% unemployment; or based on entry level wages in a particular job market, or based on the education levels of a family receiving AFDC. Further, since there are not enough resources to involve all families, there is a strong argument for substantial state discretion in determining which families participate. States have a dual incentive to operate responsibly in their JOBS expenditures; the state must use its own funds to match federal JOBS dollars, and if the expenditures are not effective in reducing state AFDC costs, there is a further adverse impact for the state.

These considerations do not lead one to conclude that there should be complete flexibility: there is a strong federal interest in ensuring that a state operate a JOBS Program, and that there be substantial participation by families receiving assistance. However, it does militate in favor of saying that so long as the broad federal goals are being addressed, the federal role should concentrate more heavily on data collection, evaluation, and technical assistance rather than detailed regulation of program operation.

In contrast, consider the Food Stamp Program. Here, the principal goal is considerably more concrete: to reduce hunger among the nation's poor by increasing their ability to purchase food each month. This is quite different from a goal, for example, of seeking to reduce hunger by increasing earnings capacity. Moreover, the federal government has committed itself to providing funding - 100% federal funding - to pay the costs of providing a federally established level of assistance to every eligible low-income household. The only state fiscal contribution is for 50% of program administrative costs.

In light of the program's goals and fiscal structure, it is hard to see an argument for state flexibility in determining food stamp benefit levels or eligibility rules. It would not be appropriate to permit a state to pay higher benefits or expand eligibility when funding is open-ended and there is no state match. At the same time, if a state were allowed to curtail benefits or narrow the population assisted, it would undercut the federal goal of ensuring assistance to the eligible population.

It is possible, of course, to argue that the goals are wrong or need to be changed. If someone wishes to contend that there should not be a federal goal of providing food assistance to all low income households meeting federal eligibility standards, he or she is free to make that argument.

The point, however, is that so long as the goal is to provide assistance to all who meet federal standards, "state flexibility" in setting benefits or eligibility rules is inconsistent with that goal.

The argument for state flexibility is stronger in the area of day-to-day program administration, where states commit 50% of the funding, and where a state may be able to put forward an approach that might improve efficiency in program administration. Even here, though, flexibility cannot be unlimited, because there is a federal concern that a state not seek to reduce its own administrative costs by a method that curtails eligibility or assistance to the federally eligible population.

States may also wish more flexibility in the method of delivering the food assistance - i.e., cash or electronic benefits transfer, as opposed to coupons. Here, the argument for some flexibility is that the federal goal is to ensure an increase in food-purchasing capacity, and not whether that increase occurs through the specific approach of coupon issuance. Here, too, though, unrestricted flexibility is inappropriate, because an approach that might lower state administrative costs (cash-out) could at the same time undercut the federal goal of ensuring that the federal benefits payments result in reduction of hunger (as opposed to paying some other bills) for eligible households.

In this analysis, AFDC falls somewhere between JOBS and Food Stamps. AFDC has two principal goals which are sometimes in tension with each other. One goal is to provide cash aid to make it possible for children to be raised by parents and relatives in their own homes; another goal is to help parents attain or retain the capability to maximize self-support and independence. Historically, the federal government has required states to ensure that aid is paid to eligible children, but has allowed states almost complete flexibility in setting basic benefit levels. In recent decades, there have been a set of increasingly complex federal rules regarding calculation of income, assistance unit composition, and other eligibility aspects.

In some respects, it is hard to understand - other than in historical terms - why there are uniform federal eligibility and benefit rules for Food Stamps and SSI but not for AFDC. The answer may reflect the tension in program goals, and the concern that a federally mandated benefit level would intrude too heavily into state discretion in setting policy to encourage self-support. I believe that a useful framework in recognition of the competing program goals is that: a) there is a strong federal interest in ensuring that there be some level of assistance to poor children; b) the arguments for state discretion are strongest in those areas which relate to the details and specifics of program administration, and of the state's approach to encouraging and requiring work, and the arguments for state discretion are weakest in areas where a state proposal would deny all aid to a poor family with children, potentially jeopardizing the federal goal of ensuring support so that children can be raised in their own homes.

Increasingly, some policy-makers are suggesting an additional goal for the AFDC Program -- to discourage, or at least not encourage, out-of-wedlock birth. It is at best unclear whether AFDC plays any substantial role in encouraging out-of-wedlock birth; many leading researchers have

concluded that the program has little or no effect on the out-of-wedlock birth rate. Nevertheless, the argument for state flexibility in this area is strongest where a state wishes to pursue policies that would not undercut other federal goals -- e.g., providing voluntary family planning assistance, extending assistance to two parent families. Conversely, the argument for state discretion is weakest where the proposed approach would conflict with the federal goal of providing aid to children in their own homes, e.g., eliminating aid for children born out of wedlock to young parents.

As this discussion illustrates, it is important for the discussion to get beyond simply asserting that flexibility is good, and instead asking when is it appropriate and when is it inappropriate. The answer will vary depending on program goals, the state of knowledge, the relevance of local conditions, and the fiscal arrangements governing program operation.

Block Grants are Not Necessary for, and May Not Result in, More Flexibility

Recent discussions sometimes begin with an assumption that the way to expand state flexibility is to shift from an entitlement structure to a block grant structure. However, in most areas, it is erroneous to assume that a block grant structure is inherently more flexible than an entitlement structure. One can envision a block grant structure with extremely detailed rules governing expenditure of funds, and one can envision an entitlement structure that allowed for broad state discretion.

For example, there is currently a controversy over such issues as whether AFDC assistance should be denied to children born out-of-wedlock to young mothers; whether AFDC should be denied to children whose paternity has not been legally established; whether AFDC should be denied for a child who is conceived during the time a parent receives AFDC; and whether the federal government should establish time-limits beyond which AFDC assistance cannot be provided. Each would be a profound change in the nature of AFDC eligibility. Yet some people suggest that such federal "strings" be tied to any AFDC block grant.

Just as it is possible to have a restrictive block grant, it is also possible to have substantial flexibility within an entitlement structure. In fact, much more flexibility has been provided to states in recent years as both the Bush and Clinton Administrations greatly opened up the use of the AFDC waiver process under Section 1115 of the Social Security Act. Since 1992, the federal government has liberally granted waivers to states to change program rules regarding income, assets, participation requirements, participation penalties, two-parent family eligibility, and numerous other areas. There have been two principal limitations - a requirement of cost-neutrality to the federal government, and a requirement of an approved evaluation design. Clearly, some states have been frustrated by the evaluation requirements and by the need to seek federal approval in each case. However, those concerns could be addressed by amending the Social Security Act to allow state plan options in the areas where waivers are frequently sought.

For example, some of the most common waiver requests have been from states wishing to change

the rules governing treatment of earnings in the AFDC Program. Given that states are generally free to set AFDC benefits wherever they choose, it is difficult to see why there should be a strong federal policy interest in dictating how states must treat earnings when calculating a family's benefit amount. Accordingly, federal law could allow states to develop their policies in this area through state plan options rather than requiring use of the waiver process. The same approach could be taken in a number of areas.

As to any specific provision, then, it is possible to envision that it could be present in either a block grant or in an entitlement structure. However, at a structural level, there are two basic differences between the two approaches; one makes the entitlement approach more flexible, while the other makes it less flexible:

- **An entitlement structure can be more flexible because it assures federal participation in a state's efforts.** An entitlement structure allows for open-ended federal match for permissible expenditures under federal law; in contrast, under a block grant, the federal contribution is limited to the amount of the block grant. In practice, this means that if a policy is permitted under both the entitlement and block grant structure, a state will be better able to implement it in the entitlement structure. For example, suppose a state wants to apply a less restrictive rule on the eligibility for assistance of families with automobiles. There are many policy reasons for wanting to do so, though it would be anticipated to increase program costs. If the option were permitted in an entitlement structure, the state could be assured of federal participation in the costs of each new case. If it were permitted in a block grant, the state might still be quite hesitant to implement it, because if more families qualified for aid, there would be no capacity to absorb additional families within available federal funding.
- **An entitlement structure imposes a restriction on flexibility by requiring a state to treat people in the same circumstances in the same way.** The major constraint on flexibility in the entitlement structure is the duty to provide assistance to those who meet program rules. In a block grant, the state is free to shut off intake, or terminate assistance to those receiving aid, or deny aid to new applicants in order to control spending. The state can do so even if this means treating people differently simply because of when in the year they applied for aid.

In summary, then, it is possible to provide substantial flexibility in both a block grant and an entitlement structure. The critical differences are that in an entitlement structure, there is access to federal participation for the costs of all who are eligible, but there is a duty to provide aid to all who meet the program's rules.

Shifting from an Entitlement to a Block Grant Structure is Not Necessary as a Means of Controlling Costs, and Would Result in Reducing Costs by Denying Aid to People in Need

For some, an attraction of block grant proposals is that they offer a means to reduce or curtail

the growth of federal spending on means-tested entitlements. As a preliminary matter, it is important to appreciate that while federal entitlement spending continues to grow rapidly, the low-income entitlements at issue here are a small and slow-growing part of overall entitlement spending. In 1993, AFDC and Food Stamps comprised 5% of all federal entitlement spending. Moreover, CBO projected that these programs would comprise less than 2% of the projected growth of entitlement spending between 1993 and 1999.¹ However, if the goal is to reduce spending for these programs, it is entirely appropriate to look at current eligibility rules and benefit levels, and ask whether they are too high and should be curtailed.

The difficulty with using block-granting as a way to reduce entitlement spending is that its primary device for reducing spending is to create a structure in which the program cannot respond to changes in need over time. Instead of facing the question of whether benefits or eligibility are too liberal, the block grant mechanism has the practical effect of compelling the denial or reduction of aid in times when more people are in need. While this may not be the intent, it is the necessary effect, because no block grant formula can adjust for changes in need in the way that the entitlement structure does.

Any block grant formula must start with an initial allocation to states, and then make adjustments over time. A threshold question, then, is the adequacy of the initial allocation.² A number of pending proposals begin by providing an amount below current spending levels, on the apparent premise that states could maintain current service levels through administrative savings. For example, the Personal Responsibility Act, H.R. 4, would create a nutrition block grant with initial funding approximately 9% below current spending, and would authorize a state option to take an AFDC block grant at 103% of the state's FY 92 federal spending. Whenever a proposal envisions a reduction below current spending, the two questions to consider are: 1) is it reasonable to anticipate the assumed level of administrative savings, and 2) even if it seems reasonable, what will happen if that level of savings does not materialize?

A priori, it may or may not be reasonable to expect administrative savings by block-granting a program to the state. On the one hand, the state gains the flexibility to write its own rules; on the other hand, there is no reason to assume that state-written rules will necessarily be simpler or easier to administer than federal rules. Indeed, one notable feature of many of the waiver proposals submitted by states to HHS is that - while they may address important policy goals - they often appear to add complexity to program administration.

Clearly, a number of states believe that they could generate administrative savings if given more freedom. However, one should keep in mind that even substantial administrative savings may not

¹ See Congressional Budget Office, *Reducing Entitlement Spending* (September 1994), at 3.

² This testimony does not explore the set of difficult questions about how to determine appropriate initial allocations between states. However, it should be appreciated that a formula based on the number of poor persons in the state could result in allocations quite different than a formula based on current spending patterns.

translate into substantial overall program savings. For example, administrative costs in the AFDC Program represent about 12% of program costs. Accordingly, a 20% reduction in administrative costs (which would be very substantial) would translate to about 2.4% in overall program savings.

It is also not clear that one should view lower administrative costs as a goal in itself. For example, one way that a state can generate lower administrative costs is to have higher caseloads per worker, or reduce spending on worker training and supervision, or rely on less qualified, poorer-paid workers. While administrative reductions through improved efficiency are desirable, administrative reductions through a deterioration in the quality of program administration are not. Further, a common theme in many discussions of welfare reform is the belief that welfare workers have focused their attention solely on payment accuracy rather than attending to issues of family functioning and parental labor market participation. If the goal is to move toward a more individualized, service-and-expectation focused approach, the effect may be an increase in measured administrative costs.

Even if a state believes it will be able to generate substantial administrative savings, the basic concern in the block grant structure is "what happens if the administrative savings don't materialize or don't reach the envisioned level?" In a block grant structure with reduced funding, the necessary answer is that if caseload stays constant and administrative savings are not sufficient, the state will be forced to either reduce assistance per family, or reduce the number of families receiving assistance.

Assuming, however, that initial funding was adequate to maintain current service levels, what would happen over time? Suppose it was Congress' goal to develop a block grant structure intended to maintain current service levels but with adjustments for changed circumstances and increased needs -- how might this goal be met? The most obvious approaches would be to allow for adjustments based on inflation, population growth, or changes in the number of persons in poverty. Yet adjustments for one or all of the three would not be sufficient to make timely responses to changes in need. Consider the following issues:

- **Inflation:** Absent an inflation adjustment, the program would risk falling further behind its basic maintenance level each year. However, simply applying an inflation adjustment to the block grant could result in a windfall to those states that had had a reduction in caseload over the year due to improved economic conditions .
- **Population Growth:** If other factors remain constant as the overall population grows, one would expect increased need. However, overall population growth is likely to be an inadequate measure of changes in need, as the numbers in need could grow faster or slower than the overall population.
- **Changes in Poverty Rate:** If the population is remaining constant, but the poverty rate is going up, one would anticipate increased need. Again, however, the poverty rate is not an

adequate measure,³ because even when the poverty rate is constant, the composition of who is poor could be changing -- there could be more or less elderly poor, or poor children, or working poor families, etc. Further, the extent of need could be changing because there could be a change in the depth of poverty, e.g., the share of poor households with incomes below 50% of poverty.

Adjustments for inflation and changes in the poverty population would also not address the potential for changes in the uptake rate by eligible families. At any given point, the numbers of eligible people receiving assistance will be less than the entire eligible population. Blank and Ruggles estimated, for example, that among eligible single mothers, the AFDC take-up rate was in the range of 62% to 72%, and the food stamp take-up rate ranged from 54% to 66%. Uptake rates could change for any number of reasons, resulting in more eligible people seeking assistance while funding remained unadjusted.

The change in the need for assistance is likely to be most dramatic during recessions, when the number of people in need may grow suddenly and rapidly. To illustrate, consider the experience of the Food Stamp Program. In 1983, there were 21.6 million participants. For the next seven years, participation was either flat or declining, reaching 18.8 million in 1989. Then, in 1990, participation jumped 1.2 million, and an additional 5.4 million in the next two years. No formula could have anticipated this sudden increase.

In recent weeks, some have asked whether there could not be some type of unemployment rate "trigger" to address the problem of increased need during recessions. While having such a trigger would likely be better than not having one, a trigger could still not adequately address the concerns noted here, because:

- **There may not be a close "fit" between the increase in the number of unemployed and the increase in a program's number of applicants.** The unemployment rate measures unemployment, not need. Two states with comparable increases in their unemployment rates might have very different levels of caseload increase.
- **Any adjustment relying on a "trigger" would not effectively address substantial changes falling short of the trigger.** For example, suppose the rule provided for an increase in funds if unemployment increased by 2 percentage points over a period of time. The state which only had a 1.9 percentage point increase would clearly have had a substantial increase in need, but with no adjustment for it.

³ Even if the poverty rate were an adequate measure of need, it is limited as a device to respond to current need under a block grant structure, because of lags in the availability of data. For example, the Personal Responsibility Act seeks to allow for adjustments in a cap on means-tested programs based on changes in the number of poor persons. However, the bill relies on a three-year lag, i.e., the cap on spending for FY 97 depends in part on changes in the numbers of poor persons between 1993 and 1994. Yet whether poverty was going up or down in 1994 has minimal relevance to determining the need for assistance in 1997.

- In day-to-day program administration, a state would be unable to **know how to treat individuals in need during the time when need was increasing but the trigger had not been reached**. For example, suppose State A projected a monthly caseload of 10,000, and in the first month of the fiscal year, the caseload reached 11,000. At this point, the state would have no way to know whether the trigger will be reached later in the year. What should the state do? Continue spending, and hope the trigger is reached? Begin denying or cutting aid because the state cannot take a chance? Since the state would be at risk of 100% state liability if the trigger were not reached, **the state would feel strong pressure to restrict or deny aid while until the trigger were reached**. And, if the trigger were subsequently reached, how far back would it go in compensating the state for the increased costs in the prior months?

In short, this is not a technical problem where thoughtful drafting could develop a recession-adjustment formula that could address changes in need as they occur. The practical effect of any block grant approach is that states will be unable to adequately respond to changes in need.

It is true, of course, that when federal funding was no longer available, a state would still be free to provide assistance using state-only funds, and it is possible that some states would attempt to do so. However, in the current system, when costs increase, the federal government is a partner in meeting those costs; in the block grant system, a state would be expected to meet additional costs with 100% state funds. This would be most difficult in times of recession, when the state also faced falling revenues and other competing claims on those revenues. Thus, it seems clear that states would be less responsive to increased need than in the current structure; the only real question is how great would be the extent of unmet need.

Ending Entitlement Status is Not Needed to Reform Welfare: To the Contrary, Ending the Entitlement Nature of Programs Would Impair Reform Efforts.

If ending entitlement status is not needed to control program costs, is there a virtue in ending entitlements to end the "entitlement mentality?" For some, the word "entitlement" appears to generate a picture of "something for nothing" or "rights without responsibilities." But this mistakes what is at issue. It is entirely possible to have a structure in which a family's entitlement to aid is contingent on a parent's participation in work-related or other activities; the AFDC Program has been moving - albeit slowly - in this direction. "Entitlement" does not mean a right to assistance without reciprocal responsibilities; it just means that government is committed to providing assistance to those who qualify for it, and that people in the same circumstances and with the same needs ought to be entitled to be treated by government in the same way.

In fact, the impact of block-granting the AFDC Program would likely be to prevent states from making the reforms needed to convert AFDC into an employment-centered program premised on principles of reciprocal obligation. In recent years, policy-makers have increasingly recognized the need to turn AFDC from an income maintenance program with limited employment requirements into an employment-centered program which helps working poor families and

provides cash assistance while individuals are looking for or preparing for work. Perhaps the greatest barrier states have faced in this effort is that turning AFDC into an employment-centered program premised on principles of reciprocal obligation costs money. For example, each month, about 13% of adult AFDC recipients are participating in the JOBS Program. This is not because states lack the authority to require more; under current law, a state already has the authority to require close to 80% of AFDC adults to participate in JOBS, and HHS has freely granted waivers to those states that wish to expand participation even further. The gap between actual and potential participation is largely due to limited state resources -- increasing JOBS participation costs more money. In part, this is because of the cost of program activities. It is also due to the cost of child care. Most (63.8%) AFDC families have a child under age 6; many (42.4%) have a child under age 3. In the current JOBS Program, it appears that about 25% to 30% of participants receive child care assistance, but as participation increases, the numbers and cost of child care increase. Thus, many welfare reform proposals begin from the premise that reforming AFDC necessitates a substantial increase in resources for the JOBS Program.

In some block grant proposals, such as in the Personal Responsibility Act, the AFDC block grant would include AFDC, JOBS, and AFDC-linked child care. If all these funds are put into a single block grant, then the only way for a state to expand its JOBS effort would be by cutting back basic cash assistance. Or, if the state wanted to expand participation by parents of young children - with higher child care costs - the state would have to reduce participation by other families. Moreover, at times when more families sought assistance and the caseload was increasing, there would be strong pressure to cut the state's JOBS efforts in order to respond. Thus, moving to a block grant structure would both impair the ability of states to turn AFDC into an employment-centered program, and impair the ability of states to ensure that individuals participated in a social contract of reciprocal obligations in return for receiving assistance.

Conclusion

In the coming months, it is important to appreciate that in some areas, more state flexibility is clearly needed, and can and should be accommodated. However, it is not necessary to block grant entitlement programs to allow this flexibility. Block-granting entitlement programs would impair their ability to respond to need, and would impair the ability of states to turn AFDC into an employment-centered program. It is possible to reform welfare without departing from the principle that in providing food assistance to the poor and cash assistance to poor families, the government will aid those who qualify.

TESTIMONY OF

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SUMMARY OF PRINCIPAL POINTS

Why have welfare-to-work mandates been the focus of reform efforts for the past 30 years, and why will they be critical to the success of the reforms under discussion in 1995?

AFDC was created in 1935 explicitly to help a group of single mothers (primarily widows) stay out of the labor force and take care of their children. The goal was to reduce child poverty, and the possibility of long-term welfare for this group was accepted. Since then, much has changed: Women flooded the labor market and mothers on welfare are now mainly unmarried. Providing long-term support is clearly much less popular.

The public wants change, but it also wants reform to satisfy two conflicting goals: providing a safety net under children and requiring that their parents work. Starting in the late 1960s, and in 1988 with creation of the Job Opportunities and Basic Skills Training (JOBS) Program, Congress and the states crafted a new basic compromise to reconcile these goals: Welfare should be transformed from a no-strings-attached entitlement (if you were poor, you got money) to a program where families would continue to get support, but parents would have to participate in some work-directed activity or work for their benefits. Effecting this transformation has not been easy. Nonetheless, there is an unusually reliable record showing that change can be successfully implemented and that JOBS can be a four-fold winner: helping to meet society's two goals (providing more money for children and substituting work for welfare by their parents), generating budget savings, and making welfare more consistent with public values.

The best evidence comes from a recently completed study of California's JOBS program, called GAIN. At its most successful, in Riverside County — which sets a benchmark for JOBS' potential — GAIN produced a 50 percent increase in earnings and a 15 percent decline in welfare outlays, thereby returning taxpayers almost \$3 for every \$1 spent to run the program. (Throughout the state, the results were about half that level.) Riverside's program was distinguished by its pervasive emphasis on getting people a job quickly, its strong reliance on job clubs but substantial use of basic education, its tough enforcement of a participation requirement (getting about 60 percent of people into some activity), its close links to the private sector, and its cost-conscious and outcome-focused management style.

Studies suggest that different JOBS approaches achieve different results. Job clubs can get people into employment quickly and save taxpayers money, but do not improve job quality or succeed with the more disadvantaged. Adding some skills training will cost taxpayers more, but can lead to better jobs for some people and may make a greater long-term difference in earnings. Programs that favor quick employment but also include some human capital development services can combine the benefits of both strategies. As for mandatory work-for-benefits programs ("workfare"), in strictly budgetary terms, these do not appear to save money, and they have almost always been small-scale. However, they provide a means to maintain a safety net for children while sending a pro-work signal to parents and producing socially useful work. To save child care costs, states have often limited the work hours in such programs.

Bringing the JOBS system nationwide up to the standard of high-performance programs can respond to the public's interest in changing the nature of welfare and is a vital prerequisite to

making a time limit -- either with some form of mandatory work at the end or with all support simply ending -- feasible and affordable. This is because, from a state perspective, the risk of time limits will be high unless more people leave welfare *before* reaching the limit. If that does not happen, too many people will "hit the cliff" and either require subsidized work, which will cost the public more than cash welfare, or face a dramatic loss of income, with unknown effects on families and children and, ultimately, public budgets.

However, federal and state actions are needed for JOBS to reach its potential. The first need is for more resources; yet, despite broad-based enthusiasm for welfare-to-work programs, JOBS is at risk for cutbacks. This could occur if states, under block grants, have to pay for AFDC benefits and work programs out of the same fixed resources. The second need is to make programs more effective. This requires not major structural changes, but changes in what staff do and how they do it in local JOBS offices. The federal government has a clear role in providing our decentralized welfare system with reliable evidence on how to improve program performance. But the states have the clear challenge of changing practice in ways that make a reality of the program's potential.

In considering whether to consolidate JOBS into a larger "employment and training" block grant for states, it is important to remember that mandatory welfare-to-work programs have overlapping but also different goals from voluntary employment and training programs. JOBS programs may seek to enhance people's job skills, but they also strive to enforce a participation requirement, to increase employment, and to reduce welfare. Operationally, this points to the importance of ensuring that JOBS programs are administratively closely linked to the welfare payment system.

Efforts to reform welfare must also confront the limited work potential of some welfare recipients. While most welfare recipients can work, some cannot, or can only with close supervision in expensive, subsidized work settings. The number of welfare recipients who cannot work, or can work only with special support, is undetermined but clearly will constrain efforts to get very high rates of participation in work-related activities or workfare positions and will be a major issue for administrators implementing time-limited approaches.

One final word about the welfare reform debate itself. It will be critical not to overpromise about the likely success of reform. Helping the public understand what level of change is attainable might break the cycle of cynicism that has resulted from past waves of welfare reform.

TESTIMONY

Good morning. I am Judith Gueron, President of the Manpower Demonstration Research Corporation (MDRC). I appreciate the opportunity to appear before this Committee today to present what is known about the success of welfare-to-work programs and how changes at the federal level could improve program effectiveness.

Background: Adding a Participation Requirement to an Entitlement

As background, it is critical to recall why a work strategy has been at the forefront of welfare reform efforts for the past 30 years, and why current proposals make the success of this approach even more vital.

The welfare reform debate in this country reflects a dilemma identified as long ago as the Seventeenth-Century English Poor Laws: Is it possible to assist poor people without, by that very act, giving them incentives for behavior that perpetuates poverty and dependency? In particular, is it possible to provide support for employable people without discouraging work?

This reform dilemma arises because, as a nation, we have two conflicting goals for welfare. First, Americans do not want children to be poor, and thus our first goal is to reduce child poverty. The most direct way to do this is to provide the parents of poor children with money. But, second, Americans also think that parents should be working and supporting their children. One way to encourage this is to reduce welfare benefits so that work is the only reliable alternative to starvation.

However, children and their parents are a tied sale: You cannot help one without helping the other. Thus, it is hard to get tough on parents and yet continue to provide a safety net to support their children. When the federal government began providing income assistance to poor families, as part of the Social Security Act of 1935, times were different and, for single mothers, the public placed primary emphasis on the first objective. Thus, the Aid to Families with Dependent Children (AFDC) Program was explicitly created to help single mothers stay *out* of the labor force and take care of their children. One researcher, Gilbert Steiner of the Brookings Institution, has called AFDC's enactment a national commitment to the idea that a woman's place is in the home. The public thought this was fair because, at that time, fewer middle-class women were working and because AFDC supported a popular group (primarily widows or the wives of disabled workers). People did not care if welfare reduced this group's work effort (they intended it to) or remarriage rate. Contrary to what you hear, individual welfare entitlements were not meant to be temporary.

However, with the extraordinary tripling of labor force participation by women over the last 40 years, the public no longer thinks it is fair to support poor single mothers, when other women are working for little money and often not by choice. That welfare mothers are now more likely to have had children outside of marriage adds to their unpopularity.

Beyond equity issues, the public is concerned that welfare creates perverse incentives and worries that if you pay for something, you will get more of it. The fear is that a welfare system that

provides funds mainly to women who are single mothers promotes illegitimacy by enabling women to support their children without depending on men. While the research record is not clear on how much welfare has promoted single and unwed motherhood, the concern persists.

These developments undermined support for the original idea that welfare should provide an alternative to paid work. Instead, a new basic compromise was forged: A mandatory welfare-to-work strategy was added, and the notion of welfare as temporary and transitional was introduced. Under this approach, Congress has maintained the basic AFDC safety net, but added work-related mandates in an effort to mitigate the unintended consequences that might flow from providing assistance. In effect, AFDC was changed from a no-strings-attached entitlement — if you were poor, you got money — into a reciprocal obligation, under which, to get full income support, people would have to participate in some work-directed activity or work itself.

The attractiveness of the work strategy was its promise to reconcile society's two goals. Yes, families (and thus children) would continue to get income, but that income would be reduced unless the parents took steps toward work. The hope was that new requirements would simultaneously change the values conveyed by the welfare system, make welfare less attractive, and provide services that would speed the transition to self-support.

The general approach was that welfare recipients would have to participate in activities designed to help them get an unsubsidized job — activities such as job search, education, skills training, or unpaid work — or risk losing some share of their welfare benefits. Since 1967, there have been several visions of how to make this mandate real. Under the Work Incentive (WIN) Program during the 1980s, the emphasis was on getting women with school-aged children to look for work. Research showed that the resulting relatively low-cost job search programs could be cost-effective, but that many people remained on welfare and those who went to work got low-paying jobs. This led to a more ambitious focus in the Family Support Act of 1988 and the Job Opportunities and Basic Skills Training (JOBS) Program it established: extending the mandate to women with younger children and providing a mix of services — with an emphasis on education and training — in an effort to further promote work, reduce poverty, and decrease long-term dependency. While some people emphasized that WIN and JOBS involved participation in employment-enhancing activities, others argued that those who were not successful in finding regular jobs would have to work in government-created community service positions in order to receive continued income support. Most recently, advocates of the latter approach propose setting a firm limit on the length of time people could receive employment services, after which the only option for continued public support would be some form of work.

Over the past 25 years, states have struggled to make a conditional entitlement real. This has proven difficult. Where successfully implemented, such programs have increased work and reduced reliance on welfare but, alone, these programs do not appear to work miracles. Does this mixed experience suggest that it is time to abandon the basic compromise of the welfare-to-work strategy?

In this testimony, I argue that the answer is a compelling "no," and that, quite to the contrary, our nation should now redouble its efforts to make this transformation succeed. This is because work strategies still offer the best hope for reconciling society's dual goals and containing costs.

Moreover, if we care about protecting children, successful welfare-to-work programs will be even more urgent if Congress or some states decide to place time limits on welfare (followed either by work or a cutoff in all income support). However, making a work strategy succeed does not mean continuing business as usual. The average welfare-to-work program falls far short of the potential. There are some clear steps that the federal government and the states can take to improve program effectiveness.

In this testimony, I also raise a caution. Those of you who want to expand work mandates should pay close attention to the federal financing structure. A structure under which AFDC benefits and work programs would be funded from the same fixed resources might have the perverse effect of squeezing out innovative and demanding work programs.

What Challenges Do Welfare Administrators Face in Transforming AFDC?

Administrators face four challenges in transforming AFDC into a work-focused mandate that moves people permanently from welfare to work. The first is resources. Enforcing participation requires an up-front investment in staff (to connect people to services, monitor their participation, review reasons for nonparticipation, and cut grants if people do not play by the rules); in providing activities (job clubs, training, work slots, etc.) that are sufficiently plentiful to give teeth to the mandate; and in child care, transportation, and other support services so that AFDC mothers can participate.

The second is changing the culture of JOBS program offices, and possibly welfare payment offices as well. Laws are made in Washington and state capitals, but policy becomes real in the exchange between welfare staff and recipients. The past focus on rooting out fraud and abuse has put the accurate determination of people's eligibility for benefits at the top of the agenda in most welfare offices; getting them into jobs has been something of an afterthought. Moreover, efforts to change this have often left staff overwhelmed and confused: They are told to provide in-depth support and to closely monitor recipients, but have caseloads of several hundred; they are given contradictory goals of simultaneously transforming people's earning capacity and getting them jobs quickly; they are told to get jobs for potential long-term recipients, but not how they might accomplish this. Changing the culture in JOBS offices will require clear priorities, adequate staff, and sufficient resources.

The third challenge concerns the women themselves. AFDC recipients are an extremely diverse group, with some being highly employable and others being close to disabled, although not eligible for Supplement Security Income (SSI) benefits. A recent survey of people who were targeted for the JOBS program in selected sites shows that between a quarter and half lacked prior work experience, at least a third had extremely low literacy skills, and more than a quarter said they could not participate at that point in time because they or their child had a health or emotional problem. (The share unable to participate would have been larger if the survey had covered *all* AFDC recipients, i.e., including those not currently subject to the JOBS mandate.) But, somewhat surprisingly, the same survey shows that welfare recipients support the idea of participation mandates. Furthermore, the vast majority say that it is fair to make people on welfare get a job, even if they do not want to.

The final challenge, which affects the ability of any work-focused mandate to succeed, comes from the job market and economic incentives facing welfare recipients. In pushing recipients to work, and equipping them for it, states have been swimming upstream against the strong current of declining wages for the low-skilled. The combination of the low wages they command and the perverse rules of the welfare, Medicaid, and child care systems — where people can be worse off working than on welfare — means that welfare recipients have little economic incentive to work.

The last two challenges — low skills and little economic incentive to work — help explain why welfare recipients who take jobs often leave or lose them quickly. The first two challenges — adequate resources and a new message — are areas where federal structural and financing policies will be critical.

Was JOBS Implemented? Has JOBS Failed?

Reports from the General Accounting Office, the Rockefeller Institute of Government at the State University of New York, and MDRC show huge variability in the success of states in implementing a work-focused mandate. JOBS was supposed to provide both carrots and sticks: offering employment-directed services, but requiring that people participate and take steps toward self-sufficiency. In 1988, the public was led to expect that the new legislation would fundamentally change the message and character of welfare and reduce the rolls. In some places, as a result of JOBS, welfare is now very different; but in many places, it is not. The reasons are clear: States had little knowledge of how to implement high-performance programs; there was no consensus on goals and the means to reach these goals; and, most importantly, JOBS programs did not have the resources to make the mandate real for most of the AFDC caseload, especially since the program was implemented during a recession that drove up the rolls and limited states' ability to provide the match to draw down available federal funds. As a result, JOBS has provided some new education and training services for welfare recipients, and states have largely met the participation targets set by Congress. But in many places it operates as a voluntary program, which clearly was not the intent of the Family Support Act.

While the national experience is mixed, studies have identified clear examples of excellence: JOBS programs that have successfully implemented a participation mandate, changed the nature of welfare, and gotten many welfare recipients to substitute earnings for AFDC payments. I will turn to the findings in a minute, but the larger lesson I want to stress now is that we know that JOBS can do much more than it has so far accomplished. In this area, we act on knowledge, not hope. The challenge is to learn from and build upon the more successful programs.

Would JOBS Matter in a World of Time-Limited Welfare?

Is this worth doing? Does JOBS have a role in an era of time limits and cut-offs? Making JOBS-type programs work better can not only respond to the public's dissatisfaction with no-strings-attached assistance, but is also vital to making a time limit — either with some form of mandatory work at the end or with all support simply ending — feasible and affordable, and reducing the misery involved in such a transformation.

I say this because, from a state perspective, it seems that the risk of a time limit will be too high unless more people than is now the case leave welfare *before* reaching the limit. If not, too

many people will "hit the cliff" and either require subsidized work, which will cost the public more than cash welfare, or face a dramatic loss of income, with unknown effects on families and children and, ultimately, public budgets.

Thus, building high-performance JOBS programs is not an alternative to, but a prerequisite for, any form of time-limited welfare. The challenge in Washington is to assure that the resources, incentives, and knowledge are there to make this investment feasible; the challenge in the states is to make a reality out of JOBS' potential.

If JOBS Remains Critical, What Is Its Potential?

Successful JOBS programs can impose a real participation mandate, increase employment, and reduce welfare costs.

1. JOBS' potential to implement a participation mandate

It is easy, sitting in Washington, to assume that anything less than 100 percent participation means that administrators are not taking the JOBS mandate seriously. But if legislation is to reflect reality, it is critical to understand why this is not a reasonable goal, even for the toughest administrators, those committed to getting everyone to participate. Evidence from two special demonstration programs that had substantially expanded funding indicates that, in a typical month and by working with *all* people subject to the mandate, administrators could get 50 to 60 percent of them either to be active in the program or to hold an unsubsidized job (usually part time) while remaining on welfare.

2. JOBS' potential to change behavior and save money

MDRC has recently completed an eight-year, six-county study of 37,000 people in California's GAIN program, the nation's largest JOBS program, which shows several models of success. While, on average, GAIN succeeded in increasing earnings and reducing welfare benefits, impacts were at least twice the average — and, indeed, the most impressive measured to date — in Riverside County. There, GAIN led to a 26 percent increase in the share of AFDC recipients working, a 49 percent increase in average earnings, and a 15 percent decline in welfare outlays, all of which helped the program return to taxpayers almost \$3 for every \$1 spent to run the program. Riverside produced dramatic results for all groups in the caseload, including very long-term recipients (who were on welfare continuously for at least six years), people with poor educational skills, and people with preschool-age children.

Riverside's program and the GAIN programs in San Diego and Butte counties proved to be triple winners. In terms of society's two goals for reform, which I mentioned earlier, they increased both the income of welfare families (getting more money to children) and people's self-sufficiency (by getting parents to substitute earnings for welfare). In the process, they also saved money for taxpayers by generating measured budget savings that actually exceeded (or, in the case of Butte, equaled) the up-front investment in operating the program. Not many social programs can match these accomplishments.

While these findings are impressive, Riverside's GAIN program has not eliminated welfare or transformed the earnings potential of welfare recipients. More people got jobs than would have gotten them without the program, and got them sooner, but they were usually not "better" jobs and families were rarely boosted out of poverty. Three years after enrolling in Riverside GAIN, 41 percent of people were still receiving welfare benefits, although some of these were working and receiving reduced grants.

What Explains Riverside's Success?

Real-world JOBS programs are complex amalgams of work-directed services, management style, operational decisions, available resources, and local environments. Success hinges to a large degree on what activities are provided (job search, work experience, education, or training), how they are targeted (serving a few people versus requiring that all must participate), and the manner in which they are provided (the message, the management, and the mandate).

Riverside provides one version of a high-performance JOBS program. In testimony last year, I characterized their tough and conservative version of the JOBS program as follows:

More than any other place I know of, this program communicates a message of high expectations. When you walk into a GAIN office in Riverside, you are there for one purpose: to get a job. At orientation, job developers announce job openings; throughout, program staff convey an upbeat message about the value of work and people's potential to succeed. If you are in an education program — and about half of Riverside GAIN participants are — you are not marking time, as you can in some locations. You know that if you do not complete the program, or at least make progress in it, staff who are closely monitoring your progress will insist that you look for a job.

The Riverside program simultaneously included a number of features:

- Priority on the JOBS program by the most senior officials in the agency.
- A strong commitment and adequate resources to serve the full mandatory population (not just those who volunteer or appear to be more job-ready).
- A pervasive emphasis on getting a job quickly, even a job that is relatively low-paying and even for people placed in education and training activities.
- A mixed strategy, emphasizing structured job search ("job clubs"), but also making substantial use of basic education.
- The active use of job developers to establish a close link to private sector employers and to help recipients locate work.
- A willingness to use sanctions (i.e., grant cuts) to enforce the participation mandate.
- A cost-conscious management style, reflecting a recognition that time is money and that moving people quickly toward the goal of employment will increase the program's cost-effectiveness.
- An outcome-focused management style, including job placement standards for case managers.

How Much Should Programs Emphasize Education and Training Versus Quick Job Placement?

One's judgment about the success or failure of any particular JOBS strategy depends in large part on one's goals for welfare reform. The available findings suggest that there are trade-offs along the continuum from an essentially job search/job club program, to one that emphasizes quick employment but also includes some education and training, to one that includes some job search but emphasizes education and training, with a goal of getting people into higher-wage jobs.

Job clubs get people into employment quickly and save taxpayers money, but do not get people into jobs with higher wages than those they would have found on their own, or succeed with the more disadvantaged. Programs focused on getting people higher-wage jobs cost taxpayers money, but can increase job quality and may make a greater long-term difference in the earnings of some recipients. Programs that favor quick employment but also include some human capital development services can combine the benefits of both strategies: They can make welfare recipients somewhat better off, save taxpayers money, and change the employment behavior of some of the more disadvantaged recipients.

The extent to which a program succeeds and is cost-effective, however, depends not only on the mix of services, but also on the quality of implementation. Spending a lot is not enough to assure success; spending a little is not enough to assure savings. Managing resources (recognizing that time is money) is central, no matter what the program's goals. In Riverside, managing for success meant providing a range of services but having one clear goal, controlling costs, and stressing performance in all activities.

While cost-conscious management can pay off, the research also provides a clear warning against spreading program resources very thin, as can happen, for example, in environments where hard-pressed administrators have to stretch limited resources over increasing numbers of welfare recipients. There is a threshold of resources below which a mandatory program may produce small welfare savings (through sanctions and the "hassle factor") but is unlikely to increase people's employment and earnings.

What Do We Know About the Feasibility and Effectiveness of Work-for-Benefits ("Workfare") Programs?

Some of the current reform proposals call for large-scale, work-for-benefits programs (usually referred to as "workfare"), either as a substitute for JOBS' other activities or for people who have not found work despite two years of access to work-directed services. Hard knowledge about workfare programs is limited and comes mostly from studies of small-scale programs implemented during the 1980s. These show a mixed record.

On the positive side, the studies suggest that it is feasible to get people to work for their grants, that they view work assignments as fair, and that they do real work. Furthermore, the value of the work produced offsets the cost (approximately \$2000 to \$4000 annual cost per filled slot, excluding the cost of child care). Thus, such programs provided an alternative way to support children. On the other hand, repeatedly, states have had trouble developing large numbers of

work sites and have found that some welfare recipients were unable to work, with the result that programs were almost always much smaller than anticipated. The very limited evidence that is available suggests that, under these conditions, mandatory unpaid work did not develop people's skills and did not prompt people to move more rapidly into unsubsidized employment or deter them from applying for welfare. It is possible that large-scale, universal, ongoing work requirements before or after a time limit might have a much larger effect on the rolls, but since this model has never been rigorously tested — with the exception of a program for men in West Virginia — its effectiveness remains unknown.

Since the workfare programs that were tested did not appear to reduce the welfare rolls, studies concluded that, in strictly budgetary terms — i.e., ignoring the value of the work performed — sending people a small check was probably cheaper than providing them with a non-market way to earn it. This is because free labor is not really free: It costs money to develop, manage, and monitor work sites, and to provide child care to people while they are working. Because of the high potential costs, some states structured the work obligation to limit the demand for child care by imposing only a three-month work obligation, setting the number of required hours of work per week to fit around the school schedule, or exempting mothers of preschool children.

While work-for-benefits programs may not save money, if they could be implemented at scale, they would be a means to deliver on the welfare-to-work strategy's potential for maintaining a safety net of funded support for children while sending a more socially acceptable, pro-work signal to parents. A recent Kaiser Family Foundation/Harvard University poll shows the public's strong support for such an outcome.

Can You Replicate or Improve on Riverside's Results?

At this time, it is unclear whether Riverside's success can be replicated in diverse communities around the country, particularly in inner-city areas. The average JOBS program lags far behind and will have to change considerably to deliver on the program's potential. However, it is clear that the techniques used — and the economic conditions — were not so exotic as to suggest that other localities could not adapt them to strengthen their own programs. Indeed, other programs that have been or are being evaluated — SWIM in San Diego, the Center for Employment Training (CET) in San Jose, several of the sites in the national JOBS evaluation — appear to make successful use of some of the same techniques.

If the rest of the nation's JOBS programs could attain similar results — an objective that the nation's governors appear eager to pursue — the welfare-to-work bargain that has been the cornerstone of the new welfare compromise would indeed achieve a transformation of welfare. Moreover, a number of factors might further improve JOBS' effectiveness: if the financial incentives facing welfare recipients were more pro-work or if there were more assistance to people once they began work in order to reduce the high rate at which they quit or lose their jobs and return to welfare.

What Federal Actions Can Increase the Effectiveness of Welfare-to-Work Programs?

Are major structural changes needed to effect this transformation? I do not think so, beyond provisions to allow states greater flexibility. But there is a major federal role in addressing the first two challenges I outlined early in this testimony: changing the message and practice of the

JOBS program and providing adequate resources for the up-front investment in welfare-to-work programs.

1. Structural Reform

The difference between high-performance and average JOBS programs is not structural. The key is what staff do and how they do it. Any fundamental structural change would take years to put into place — years in which changes in federal law filter down through new regulations to changes in state law, to changes in local government, to the development of new procedures in local welfare offices, and, finally, to the interaction between line staff and welfare recipients in those offices. At its best, "structural change" could provide a new environment in which welfare programs would have the potential to work better, but there is no guarantee that this would occur. Changing the structure of the system is in some sense the easy part. At its worst, structural change could divert administrators from confronting the tough part: the day-to-day tasks that would still remain after making any major structural change. These tasks — articulating a clear mission, explaining to staff how this message affects what should happen between welfare recipients and staff, getting people into quality services, monitoring their participation, addressing problems quickly when they arise, sanctioning nonparticipants, and putting in place systems, services, and practices that are cost-effective and put large numbers of welfare recipients to work — are the keys to success.

The history of reform in the nation's employment and training system is one in which the structure is changed, but the real action — the interaction between welfare recipients and staff and the quality of employment services — is neglected. This is where administrators need to focus in order to improve program effectiveness. But for administrators to tackle these tough issues with zeal requires that they identify with the program's mission. Visions for welfare reform spring from different values and goals. Promoting program ownership requires giving states flexibility in the design of their work strategy.

2. Performance Standards, Technical Assistance, and Knowledge-Building

What can the federal government do to increase program effectiveness? Some of the cross-state variation in the design and nature of welfare-to-work programs reflects different values and goals for welfare reform, or differences in resources. But some of it reflects differences in competence, know-how, and knowledge.

In addition to providing funding, there are three ways the federal government could promote change. The first would be to tie funding to the achievement of performance standards intended to promote JOBS' different goals: imposing a work-focused obligation (participation standards) or increasing employment and reducing welfare receipt (outcome standards). People who envision work programs primarily as a means to impose a quid pro quo for welfare receipt, favor participation standards, the current approach. These standards seem to have been effective in moving the system in the direction of imposing a participation mandate on a larger share of the caseload. People who see JOBS programs as a means to increase employment and reduce welfare receipt view participation standards as a diversion and advocate a shift to outcome standards, i.e., measures such as the rate at which welfare recipients get jobs or leave the rolls.

The attraction of either outcome or participation standards is clear: There is evidence that the system would respond to such incentives, i.e., that you get what you measure. Congress or the states could identify the goals, and individual administrators could then be unleashed to be creative in achieving them. While there is a clear logic to outcome standards, there are also some warning flags. Studies show that:

- The easiest way to get more job placements is to change whom you serve, not how you serve people. This has led to the phenomenon of "creaming."
- There is no clear correlation between programs that produced good outcomes (e.g., high numbers of job placements) and programs that actually change people's behavior (i.e., get jobs for people who would not have gotten them anyway).
- The nation's major performance-driven system, the Job Training Partnership Act (JTPA) program, was not more successful with welfare recipients than welfare-to-work programs that did not operate under outcome standards. JTPA programs produced comparable earnings gains, but did not generate welfare savings, a clear goal of welfare reform programs.
- It is very difficult to create a level playing field across states facing varied economic conditions and with diverse welfare populations.

This does not mean that some combination of outcome and participation standards might not be an effective tool to motivate program staff, but it does suggest caution in over-reliance on this approach at the federal level.

A second way the federal government can bring about wider application and use of effective strategies is to take advantage of the growing body of research evidence about what works and what does not work. This could be done by an aggressive, hands-on, federally sponsored technical assistance and training effort — possibly combined with financial incentives — designed to provide states with concrete evidence on the services and management practices and strategies that have been used by the most successful welfare-to-work programs. While this is not a guarantee of success — and states' responses will vary, depending on their particular priorities and goals for reform — it could short-cut the learning process and promote change.

Such an effort could champion the techniques shared by welfare-to-work programs of proven effectiveness:

- *Saturation services.* The resources and commitment to work with everyone required to participate.
- *Adequate staff and systems.* Reasonable staff caseloads and reliable automated systems so that JOBS workers can monitor and report on participation and outcomes.
- *A strong employment focus.* JOBS staff who promote the value of work and the capabilities of welfare recipients, while providing a range of services.
- *Private sector connections.* The active use of expert job development staff who link participants to real jobs.

- *Committed management.* Leadership that conveys a clear message about the program's employment goals and the means to attain them.
- *Outcome and process standards.* Management that tracks staff success in getting people into jobs and in enforcing the participation mandate.

Finally, there is also a continuing federal role in identifying effective practices, evaluating new innovations, and determining the replicability of successful approaches. Twenty years ago, we knew almost nothing about the effectiveness of different welfare-to-work approaches. I can discuss the findings presented in this testimony today because of the large body of studies that now exists. If, with new flexibility, states increasingly become the laboratories for innovation and the locus of control for work strategies, the urgency of capturing the lessons will be even greater. The need for a federal role in knowledge-building and technical assistance will be more urgent, since states will have limited incentive to increase and share knowledge.

Would Block Grants Encourage or Inhibit the Expansion of Work-Focused Programs?

The goal of welfare-to-work programs is to change AFDC from an income transfer program to a system promoting and requiring work. This involves an up-front investment in creating enough work-directed activities to make the obligation real. While the payoff can be substantial, it is in the future. (For example, it appears that the Riverside program took close to two years to pay taxpayers back for the initial investment. Less effective programs — or those working with more difficult populations in inner-city areas — can take longer.) If JOBS funds are included in a block grant, the marginal, or last, dollar spent will come 100 percent from state tax-levy funds. Under these conditions, will work programs thrive?

1. If AFDC and JOBS Are Included in One Block Grant

It is hard to predict how states will respond if they receive one block grant to cover AFDC benefits and welfare-to-work programs. While some states may maintain or expand their work programs and welfare reform initiatives, it is likely that, when there are no federal matching funds for the last dollar spent on a work program, states will have shorter time horizons. If applications for welfare increase and states come under pressure to meet grant payments, work programs will be at risk. This is because they will seem more discretionary and, therefore, easier to cut. Also, states may resist investing in these programs, since some of the returns (in reduced Medicaid and Food Stamp outlays, or increased tax payments) will go to the federal treasury. For both reasons, work programs may be scaled back or funded at levels that have been shown to produce very little.

2. If JOBS and Employment and Training Programs Are Included in One Block Grant

The main issue to consider in answering this question concerns program goals. The objectives of mandatory welfare-to-work programs may, in part, overlap with those of voluntary employment and training programs, but they also diverge in fundamental respects. JOBS programs seek not only to help people find jobs and increase their skills — the goals of the employment and training system — but also to impose a participation requirement and reduce welfare receipt. Welfare-to-

work programs are thus distinctly different from the typical job training program: They do not serve motivated volunteers but, rather, mandate participation; they cannot screen applicants and select those who can be placed in jobs, but must seek to reach everyone on welfare.

From an operational perspective as well, this divergence in goals means that the JOBS program has to be tightly linked to the income maintenance system, i.e., those who pay the welfare checks. As we learned in the 1970s, having responsibility for welfare employment programs in one state agency and responsibility for the welfare payment system in a different state agency is a complex structure for reforming welfare through work-focused mandates. Whatever emerges should facilitate, not complicate, the necessarily close link between welfare and work.

A real innovation in welfare-to-work programs occurred in the 1980s, when governors obtained new flexibility and assumed ownership of the program, ending the bifurcated structure where welfare-to-work programs were jointly managed by the federal and state labor and welfare departments. JOBS takes on new relevance when it is a tool for reducing welfare costs, wielded by the agency responsible for paying grants.

How Many Welfare Recipients Cannot Reasonably Be Expected to Work?

Finally, an inevitable question in discussions of welfare reform concerns the work potential of welfare recipients. Contrary to the stereotype, many recipients want to work and, in fact, do work. Some work while they are receiving AFDC, and many take jobs and leave AFDC. In the California evaluation, the majority (57 percent) of people in GAIN worked at some point during the three years after entering the program, and about two-thirds of them worked at least 30 hours per week in their most recent job. Moreover, the overwhelming majority of GAIN survey respondents who said that they were not employed but were looking for work reported that they were seeking a full-time job, a preference that was also noted in a recent report from the National JOBS Evaluation.

Even for those who are employable, however, studies also show that the road to self-sufficiency can have many detours and that "employability" is not a static condition. Setbacks are common. The GAIN study found that less than a third of people in the program were working at any given time, indicating a high rate of job turnover. Jobs ended when people quit (e.g., because of family crises) or because of layoffs, conflicts at the worksite, or a variety of other reasons typical in the low-wage employment sector.

But there is also a group on welfare who simply cannot work in unsubsidized jobs, either because of their very low skills, their lack of any experience with work, or their own or their children's chronic health or severe emotional problems (problems that, nonetheless, do not qualify the family for SSI). One study, the National Supported Work Demonstration, targeted very long-term recipients and showed that, with special assistance and in unusual settings, some people who would normally have been considered unemployable could in fact work. But creating the close supervision and somewhat protected work settings proved very expensive. Moreover, when the 12 or 18 months of transitional paid work ended, a substantial group of women who could get by in the sheltered program environment were not able to get or keep an unsubsidized job.

The number of people who cannot work, or who could work only with special support, is probably less than the quarter of JOBS eligibles who said in a survey that they could not participate at a particular point in time. But the group in question will constrain efforts to obtain very high rates of participation in work-related activities or workfare positions and will challenge administrators implementing time-limited welfare approaches.

Conclusion

For 30 years, Congress has responded to the public's clear desire to change welfare from a no-strings-attached entitlement to a transitional program that requires that many people on welfare participate in work-focused activities. This has proven difficult to do and, as a result, some are arguing that JOBS has not worked and should be discarded. This would be a serious mistake. Across the country, states and localities have moved along the road toward changing welfare and have put in place many of the building blocks of reform. Research on JOBS programs does not suggest that they offer miracle cures. But we do not have comparably reliable evidence of alternative approaches that work better than the nation's most promising JOBS programs in substituting earnings for welfare while saving money for taxpayers and continuing to provide a safety net for children whose parents cannot or will not work.

We now know that JOBS can succeed in changing welfare so that it feels more temporary and communicates different values. If welfare offices throughout the country were communicating the same new message and having the same results, the public might have a very different view of legislators, administrators, and welfare recipients. They might think that reformers were finally getting serious.

But can communities throughout the country achieve this level of performance? The answer is not clear. Currently, average performers lag far behind and will have to change considerably for JOBS to deliver on its potential. But what is clear is that most communities have only begun to try, and that bridging this gap will not happen by putting JOBS on autopilot. There need to be more resources (to make the mandate real), stronger management, and commitment to a program that is more work-focused and mandatory.

There is clearly both a federal and state role in making this happen. There is a severe risk that we will not realize the potential of a welfare-to-work strategy because sufficient funds are not available. One way this might occur is if states have to make trade-offs on the use of a single pool of funds: i.e., spend them on maintaining welfare benefits, or on up-front investments in programs to get people off the rolls, or on mandated programs to keep them working while on. Thus, the federal funding structure will be key to promoting JOBS' expansion. But, beyond this, the federal government has a clear role in building state capacity. Doing this involves steps to identify models of excellence, to understand whether success can be replicated under diverse conditions, and to provide a decentralized welfare system with reliable evidence on how to improve program performance.

Finally, the federal government and the states both have a role in trying to alter the economic conditions — the combination of stagnant or declining wages and anti-work incentives built into

the welfare system — that constrain the potential for success of current efforts to get welfare recipients to work.

While improvement is clearly possible, in providing leadership in welfare reform, the federal government and Congress face the challenge of avoiding overpromising on the success of the next round of reform. There are simply no easy solutions for poverty or welfare. Helping the public understand what level of change is attainable, and taking all the steps needed to make that occur, might break the cycle of cynicism that has resulted from past waves of reform. Instead of setting unrealistic goals and denouncing modest success as failure, setting realistic goals might help the public gain greater confidence in, rather than find a new reason to discredit, government.

REPUBLICAN WELFARE REFORM

Testimony before the U.S. Congress
Senate Committee on Governmental Affairs
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I am very pleased to testify in these crucial hearings on the future of welfare in America. I am delighted to see the Republicans in the seats of power in Congress for the first time in forty years. This presents them new challenges. For the first time since welfare became a national issue, they get to ask what kind of welfare they want. What should a *Republican* reform of welfare mean?

The proposals of House Republicans combine cuts in welfare's generosity with tougher work requirements. I believe the work provisions are the sounder. While many Republicans want simply to cut back welfare, I would prefer to use it for conservative ends, in this case to enforce work. To do this suits public opinion, and it also may be the best way to reduce dependency. More than most people realize, work programs have already restrained the growth in welfare. Current welfare work programs, however, must be changed so that they enforce work more effectively.

REPUBLICAN PROPOSALS

The Republican Contract with America includes a Personal Responsibility Act with these main provisions:¹

- Eligibility limits: Unwed mothers under 18 are denied benefits under Aid to Families with Dependent Children (AFDC). States may raise the age of eligibility to 19, 20, or 21. States would use the savings to make other provision for families denied aid, such as group homes.
- Time limits: Recipients on the rolls over two years must be working to retain aid. States may end eligibility for an individual or family after two years on AFDC, provided one year was spent in a work program. They must end eligibility, with or without work, at five years.
- No entitlement: Federal spending for AFDC, welfare work programs, SSI, and public housing would be capped, with some adjustment for inflation and growth in the poverty population. These benefits would no longer be provided to all eligibles as of right.
- Work requirements: States must establish training and mandatory work programs that require recipients to work or look for work 35 hours a week. Starting in 1996, 2 percent of all welfare adults must be working in these programs, rising to 50 percent in 2003.

Welfare needs radical change. The proposed eligibility cuts and time limits are certainly radical. It may be worth enacting them simply for this reason. But I have two cautions. First, we know very little about the effects of such changes. Opponents say children and poor families will be hurt, but that depends on whether they find other means of support, as many can do. Proponents say that cuts would reduce dependency by abating the incentive that welfare now creates to have children out of wedlock. However, that effect would probably be small, since the incidence of illegitimacy has only a weak tie to welfare benefit levels.² Perhaps a total end to eligibility for young unwed mothers would have larger effects. I doubt it, since the sexual behavior of such women is not based on any rational

¹ Ed Gillespie and Bob Schellhas, Contract with America: The Bold Plan by Rep. Newt Gingrich, Rep. Dick Armey and the House Republicans to Change the Nation (New York: Times Books, 1994), pp. 65-77.

² Robert Moffitt, "Incentives Effects of the U.S. Welfare System: A Review," Journal of Economic Literature 30 (1992): 1-61.

calculus of costs and benefits. To have children young and outside of marriage is already devastating to one's prospects in life, even with welfare as it is; to end aid would increase that cost only slightly.

There is less reason to think that time limits would deter illegitimacy. To the disadvantaged teens most at risk of dependency, two years is an eternity. The distant knowledge that one cannot draw aid forever is unlikely to deter them from the risky sexual behavior that now gets them in trouble. Far better to change the nature of welfare so that the recipients have to work as soon as they go on aid.

My second caution is that eligibility cuts and time limits conflict with public opinion. According to polls, most Americans oppose ending aid if it would mean taking children away from mothers. And while a majority support a two-year limit on aid, they do so only if it is clear that the recipients could support themselves by working. Indeed, if the recipients work, most people feel that aid need not be time-limited. In general, the public would prefer to turn welfare into a work program rather than cut it back. While cuts would save money, most people are prepared to spend additional money on welfare provided the adults would really be required to work.³

None of this means the Republican proposals are mistaken. Government may need to underline the value of personal responsibility even if the deterrent effect is doubtful. Most states have capital punishment because people feel it is justified for heinous offenses, even though one cannot show that it deters crime. Sometimes government has to lead public opinion rather than following it. I only say that if government cuts or time-limits welfare, it should realize that the main effect probably will be symbolic. Congress should not expect sharp improvements in the social problem, and it should expect opposition from some voters and well as advocacy groups.

The effect of unentitling welfare is even less certain. Since funding for welfare and other programs slated to be unentitled would still increase with inflation and the poverty population, it is unclear whether any needs now covered would not be met in future. Even if money were to run out with needs unmet, Congress might well vote supplementary funds, which would mean that welfare remained an entitlement in practice. Food Stamps, after all, is technically not an entitlement, yet Congress always ensures that it is fully funded. Most likely, an unentitled AFDC would be too.

WORK REQUIREMENTS

To demand that adult recipients work is, in general, a better way to reform welfare. It is more consistent with public values. Studies show that most Americans combine a desire to help the needy with opposition to the disorders associated with welfare, especially unwed pregnancy and nonwork by welfare adults. People want to help families in distress provided the adults show that they are "deserving" by demonstrating a willingness to work. Voters endorse the idea of social contract--of

³ Maureen Dowd, "Americans Like G.O.P. Agenda But Split on How to Reach Goals," New York Times, December 15, 1994, p. A24; Richard Lacayo, "Down on the Downtrodden," Time, December 19, 1995, p. 32; Peter G. Gosselin, "GOP Returns to Hard Line on Welfare," Boston Globe, January 14, 1995, p. 6.

demanding obligations such as work from the able-bodied *in return* for aid. This ideal has animated most welfare reform thinking for the last decade.⁴

Traditional liberal ideas of welfare reform gave the needy more benefits without expecting good behavior from them. The current Republican proposals would deny aid to some people now covered. The first course offends the demanding side of the public mind, the second the generous side. The attraction of work tests is that they promote employment without compromising the principle of aid. When welfare is reformed this way—and only this way—both sides of the public mind are content.

But can welfare employment programs actually cause people to work? The usual view is that they have only marginal effects. Evaluations show that they raise the employment and earnings of their clients by from 11 to 43 percent compared to equivalent recipients not in the program, but only small reductions in dependency result.⁵ Liberals conclude that there is little point in making recipients work. Some conservatives conclude that the effect of work requirements is only symbolic, that government must do something more drastic—such as ending welfare or putting poor children in institutions—if it is to turn around the wave of illegitimacy and crime engulfing poor families.⁶

I think the effect of work programs has been underestimated. I recently analyzed the determinants of the growth in state AFDC caseloads between 1989 and 1993. Much of that growth was driven by rising unwed births and the economic recession of those years. The same period, however, saw the implementation of the Job Opportunities and Basic Skills Training Program, or JOBS, the welfare work program mandated by the Family Support Act (FSA) of 1988. JOBS was a major force restraining caseload growth in the states that implemented it firmly. According to my estimate, AFDC growth in the average state over 1989-93 was reduced by:

- Almost a percentage point for every percent of welfare adults that a state had active in the JOBS program in 1991.
- Almost another point for every percent by which that active share rose during 1991-3.
- Two-fifths of a point for every percent of welfare adults that a state found to be employable and hence mandatory for JOBS.

A tough JOBS program appears to be one reason why Wisconsin has reduced its welfare rolls, despite generous welfare benefits.⁷ Very likely, JOBS has operated to restrain welfare growth nationwide.

⁴ Lawrence M. Mead, *Beyond Entitlement: The Social Obligations of Citizenship* (New York: Free Press, 1986).

⁵ Judith M. Gueron and Edward Pauly, with Cameron M. Lougry, *From Welfare to Work* (New York: Russell Sage Foundation, 1991), pp. 26-30.

⁶ James Q. Wilson, "What To Do About Crime," *Commentary*, September 1994, pp. 25-34.; Charles Murray, "What To Do About Welfare," *Commentary*, December 1994, pp. 33-4; Myron Magnet, "Putting Children First: A New Direction for Welfare Reform," *City Journal* 4, no. 3 (Summer 1994): 47-53.

⁷ Lawrence M. Mead, "The New Paternalism in Action: Welfare Reform in Wisconsin" (Milwaukee: Wisconsin Policy Research Institute, January 1995).

Work programs also have positive effects at the level of the individual. It is good for the development of low-income children if their mothers work, notwithstanding the loss of childrearing time,⁸ and JOBS causes more welfare mothers to work. Welfare requirements like JOBS have even been shown to reduce unwed childbearing,⁹ the very problem that critics of work policies emphasize.

Also, the evaluations of work programs ask mainly how much economic gain they produce. The public wants welfare adults to work mainly to affirm the moral value of effort, whether or not there are economic gains. From this viewpoint, the main goal of reform is simply to raise the level of *activity* among the adults--the share that are working, looking for work, or preparing for work in some way. This the programs achieve. When experimental work programs of the 1980s were evaluated, and recipients subject to them were found to be working, looking for work, or engaged in education or training at *at least twice the rate* of equivalent clients subject to earlier programs.¹⁰ Under FSA, the share of recipients active in JOBS is supposed to be 20 percent on a monthly basis in 1995, a level that sounds low but is a vast increase over earlier policy.¹¹ The gain in sheer activity would be invaluable even if there were no impacts on employment or dependency at all.

HIGH-PERFORMING WORK PROGRAMS

However, to maximize such effects, research suggests, welfare employment programs must emphasize:

- High participation. As many of the employable as possible must participate actively in the program, not simply sign up.
- Actual work or looking for work, as against education or training in advance of employment.
- Tight administration, with expectations made clear to clients when they enter the program and a willingness to sanction those who drop out.¹²

In a recent study of JOBS in Wisconsin in 1993, I found that the highest-performing counties were those that:

- Minimized the delay between a client going on welfare and being referred to JOBS.
- Enrolled high proportions of recipients referred to JOBS, not allowing them to drop out.

⁸ Deborah Lowe Vandell and Janaki Ramanan, "Effects of Early and Recent Maternal Employment on Children from Low-Income Families," Child Development 63 (1992): 938-49.

⁹ Robert D. Plotnick, "Welfare and Out-of-Wedlock Childbearing: Evidence from the 1980s," Journal of Marriage and the Family 52 (August 1990): 735-46.

¹⁰ Lawrence M. Mead, The New Politics of Poverty: The Nonworking Poor in America (New York: Basic Books, 1992), pp. 167-8.

¹¹ *Ibid.*, p. 177.

¹² Lawrence M. Mead, "Should Workfare Be Mandatory? What Research Says," Journal of Policy Analysis and Management 9, no. 3 (Summer 1990): 400-4; *idem*, "The Potential for Work Enforcement: A Study of WIN," Journal of Policy Analysis and Management 7, no. 2 (Winter 1988): 264-88.

- Placed high proportions of participants in motivational training and job search.
- Downplayed education and training in advance of work.
- Enforced these rules with case managers who followed up on clients closely.
- Minimized the use of government jobs.

In Kenosha County, the most exemplary program in the state, over a third of the caseload is already working while still on welfare, and participants were not normally allowed to undertake education or training except while working part-time. Yet because of its high enrollment, the program still has more clients in remediation than lower-performing counties.

In Wisconsin, among counties I visited, the high performers in job entries also did well on job quality. This is because for the disadvantaged, simply working at available jobs is usually worth more in getting a better job than education or training. Most welfare recipients have done too poorly in school to improve their skills much in the classroom. Employers are more likely to impress with a steady work history, even if it is in low-paying positions. There is also some reason to think that people profit more from training after they are working than before--because they see the skills they need to move ahead. Kenosha successfully combines work and remediation by demanding that clients seek work up front, then allowing them to study or train once they were working part-time.¹³

Most analysts say that JOBS must choose between placing many people in available jobs and training them for better ones. The first course gets people working, but only the second can get them permanently off welfare.¹⁴ It is true that programs that place more clients in jobs achieve marginally worse rates of pay and retention in these jobs than programs that do not stress work, but the effects are weak alongside the power of work demands to generate sheer numbers of job entries. Work-oriented Kenosha achieves both job quantity and quality, but programs that aim at "better" jobs have no comparable power to achieve job entries. In California, work-oriented Riverside outperforms by most measures Alameda and Los Angeles, which have spent more on education and training.¹⁵

The main point of work programs is to make welfare less permissive, but it also clear that such programs save money. It is said that welfare reform must cost more than welfare does now. But this is true only if, as in the Clinton reform plan, one spends unnecessary sums on public jobs, training, or child care. Efficient programs such as Riverside stress placement in available jobs with a minimum of extras. They save vast sums of money *as well as* performing better than skills-oriented programs.

¹³ Mead, "Potential for Work Enforcement," and Mead, "New Paternalism in Action."

¹⁴ Gueron and Pauly, *From Welfare to Work*.

¹⁵ James Riccio, Daniel Friedlander, and Stephen Freedman, *GAIN: Benefits, Costs, and Three-Year Impacts of a Welfare-to-Work Program* (New York: Manpower Demonstration Research Corporation, September 1994).

IMPROVING WORK PROGRAMS

In JOBS, regulations demand that clients be assigned activities at least half-time and attend 75 percent of their assigned hours to be counted as participants. That level of effort seems practicable. However, for purposes of calculating state participation rates, the base is only the employable adults, who are 44 percent of all welfare adults, and a state may include recipients participating less than 20 hours provided the average is 20. By the official measure, the average state participation rate was 23 percent in 1993, but the average rate of all welfare adults meeting the official participation standard was only 10 percent.¹⁶ The standard for state participation is too low. FSA mandates 20 percent on a monthly basis in 1995, which is well below the potential of JOBS. While the average state participation rate was 23 percent in 1993, Kenosha achieved 50 percent as early as 1990.¹⁷

The form of participation is also undemanding. FSA stipulates that recipients be assessed for employability prior to looking for work, does not mandate up-front job search, and creates presumptions that welfare mothers under 20 who have not completed high school will be put in educational activities in preference to work, even if they have dropped out of school. Partly for these reasons, JOBS programs in some states has diverted many recipients into remediation before they ever sought work and has spent massively on education and training with little to show for it.

The Clinton proposal would raise the participation floor in JOBS to 50 percent using the existing participation measure, much its most constructive provision. However, it seeks mainly to limit the time recipients can draw aid without working to two years. What if anything the recipients would have to do before two years is left largely to states, so the connection of work and welfare remains loose. The Clinton plan says that the "job-ready" must look for work up front, but who is job-ready is left to the states. The big cities could go on allowing vast numbers to pursue higher credentials, usually to little good, in place of working. The plan also exempts recipients born before 1972. Despite tough rhetoric about "ending welfare as we know it," Clinton would not change the aid by entitlement that most recipients now enjoy.

The Republican Personal Responsibility Act demands more actual work, but it does not do so in the most effective way. It would effectively disestablish the JOBS program, which, with all its limitations, is still the best work program welfare has had. States would be required to have some sort of welfare employment program, but no standards would be set for it. The main reliance for enforcing work is instead placed on a separate mandatory work program, which would require its participants to work in the private sector or in some form of government or subsidized employment. But even as it is, JOBS has put considerable pressure on big-city welfare departments to get serious about employment.

¹⁶ Calculated from JOBS performance data for 1993 from the U.S. Department of Health and Human Services, Administration for Children and Families, Office of Family Assistance.

¹⁷ Michael Wiseman, "Sample Family Support Act Job Opportunity and Basic Skills Training (JOBS) Participation Data (Revised)" (Madison: University of Wisconsin--Madison, La Follette Institute of Public Affairs, November 24, 1991).

Above all, reform should keep that pressure on, not shift to some new structure that would disrupt the implementation process.

The participation rate of 50 percent demanded by 2003 is defined on a basis of all welfare adults, not just the "employable," an improvement. But only actual work counts as participation, not other activities. And participation requires 35 hours of effort a week, not the current 20 hours. Fifty percent participation is probably too tough for states unless nonwork activities are allowed to count, and 35 hours is too tough for welfare mothers. Some compromise must be made with their family responsibilities. Such requirements would probably be evaded. To transform welfare, it is vastly more vital to raise the share of recipients who face some requirement than to get full-time work out of a few.

Both the Clinton and Republican plans focus too much on time-limiting aid, either absolutely or aid without work. I doubt it is possible literally to limit aid to some length of time. Inherently, single mothers must have difficulty supporting themselves. A majority of welfare mothers could probably get off welfare if they worked full-time,¹⁸ but that is more than government can expect. If one insists on ending welfare after some interval, one will inevitably have to provide aid in some other form.

The goal should be, not to limit aid in time, but to change its nature, so that the employable reliably had to work at least part-time in return for their support. Simply require that recipients work or look for work as soon as they go on welfare. Those who claimed not to be employable would have to demonstrate incapacity and thus leaving AFDC for the disability programs. Faced with such demands, a great many recipients probably would work enough to leave welfare, but just as important, welfare for the rest would become less passive.

Both plans seek to enforce a time limit by guaranteeing work, but a guarantee is impracticable. The Clinton plan can do so only by exempting much of the caseload and providing government jobs to the rest, at great expense. The Republican work program would not be limited to public jobs, but states would still have to guarantee work to recipients for a year if eligibility were time-limited before five years. The difficulty of doing that would make it tough to enforce work *on* welfare as the public wants. Better to require the employable, not literally to work, but to work *or* look for work, both of which involve serious demands. This way, employment is not strictly required, but neither must it be guaranteed, and the pitfalls of large-scale government jobs are avoided. No doubt, it would be difficult to send large numbers of recipients out looking for jobs and monitor their compliance, but I judge from talking to JOBS staff, that this is easier than running a vast public jobs network.

¹⁸ Charles Michalopoulos and Irwin Garfinkel, "Reducing the Welfare Dependence and Poverty of Single Mothers By Means of Earnings and Child Support: Wishful Thinking and Realistic Possibility" (Madison: University of Wisconsin, Institute for Research on Poverty, August 1989).

IMPROVEMENTS IN JOBS

I would make the following changes in JOBS, and to achieve these should be the main goals of the current round of reform. For state programs I would:

- Reduce the time permitted between initial receipt of welfare and the referral of adults to JOBS to no more than a month.
- Eliminate up-front assessment and replace it with mandatory up-front job search for all adult recipients other than teen mothers still in school. Those failing to find work might eventually be assessed, but they would have to keep looking for work.
- Change the participation measure to the percent of all welfare adults active in JOBS and raise the general participation floor to 50 percent, with several years of phase-in, but allow remediation activities as well as actual work or work search to count as participation.
- Set a parallel requirement that 33 percent of recipients be working in a given month at least half-time, in either public or private jobs, again with several years of phase-in.
- Develop other performance measures for the quantity and quality of the jobs achieved through JOBS., to create incentives for states to get recipients entirely off welfare.

For recipients, I would:

- Require that they work or look for work half-time for as long as they are on welfare. The only alternative for those seeking aid would be to establish eligibility for disability.
- Impose this requirement as soon as mothers went on welfare in most cases. I would allow a grace period of six months for mothers who were widowed, divorced, or separated, but not unwed mothers. Mothers with children under 1 would face a community service requirement less demanding than actual work, but it would still be half-time.
- Allow education or training for better jobs, but only for those working at least half-time.
- Strengthen the sanction for noncompliance with JOBS to the termination of the entire welfare grant, as for other welfare offenses, not just the offender's share of the grant.

A REPUBLICAN WELFARE POLICY

I am uncomfortable with dismantling national standards for welfare to the extent House Republicans propose. I do not see a mandate in the recent election to do this. The voters asked to make government more responsive and more functional, not to devolve it to the local level. To improve welfare, I believe, requires changing the federal role, not abandoning it.

The devolution of welfare would not serve conservative values as much as some Republicans think. Permissive versions of welfare are entrenched in a number of states and cities, most notably New York. To eliminate national standards, even to curb funding, would not end this liberal welfare, but perpetuate it, albeit with less federal support. Perhaps remaking welfare locally is the responsibility of states, but the voters have failed to achieve that in New York, due to liberal lobby groups, an impacted bureaucracy, and the influence of liberal politicians entrenched in the

legislature.¹⁹ To judge from opinion studies, Albany continues to fund welfare policies that are probably more lavish and certainly more permissive than New Yorkers want.²⁰ I doubt even the election of a Republican governor can change this. Much the same appears to be true in California, Massachusetts, and other affluent states.

To change welfare, ordinary New Yorkers need help from Washington--the sort of tough new standards I have recommended. Republicans are too used to thinking that federal domestic policies must inevitably be liberal. The GOP has held the White House for most of the last generation, and has achieved growing power in Congress. While the whole government has not yet fallen into Republican hands, it is twenty five years since federal social policy was unambiguously liberal. Many Democrats are starting to think that, as national policies have turned to the right, their best chance of preserving a liberal social policy may now be at the state and local level.

The nation may be returning to the situation at the beginning of the century, when Republicans also ruled Washington and the Progressive movement worked to expand social programs mainly in states and cities. The welfare state expanded from the local level to the nation only when Democrats took over Washington in 1932. Now that Republicans again hold national power, they should use it to chasten the overblown welfare systems that still exist in liberal states--not to take the heat off by getting rid of national welfare policy.

Our current entitlement welfare is the product of the welfare rights movement of the 1960s, which opposed the highly discretionary welfare that existed before that time. Welfare advocates could make the case that conservative states, especially in the South, allowed social workers to decide for themselves what a single mother had to do to get aid, without a clear warrant from the public. That movement has been in retreat for twenty years. If anything could refire it, it would be the abandonment of national welfare standards, leading to a renewed perception that localities were treating the needy invidiously, without a mandate from the people.

In practical ways, much of the implementation of a national welfare policy can be devolved to localities, and to nonprofit and even proprietary as well as government agencies. To do that is part of what "reinventing government" requires.²¹ It is the standards, not the administration, of welfare that must be national. It is by changing these rules, above all, that Washington can turn welfare into a work program, which is what Americans want.

Decisions about who is eligible for aid and what they must do for it are not obscure matters beneath the notice of Washington, like where to put a post office or how much to spend on local

¹⁹ Lawrence M. Mead, "Kicking New York's Dependency Habit," *City Journal*, vol. 1, no. 4 (Summer 1991): 41-9.

²⁰ Richard J. Behn and Douglas Muzzio, *Empire State Survey: New Yorkers on the Limits of Welfare* (New York: Empire Foundation and Lehman Institute, 1994).

²¹ David E. Osborne and Ted Gaebler, *Reinventing Government: How the Entrepreneurial Spirit is Transforming the Public Sector* (Reading, MA: Addison-Wesley, 1992).

schools. They express part of what one gets and gives by being an American. They amount to an operational definition of citizenship. Requirements like work tests enforce the common obligations that, as much as common rights, constitute what Americans understand as equality.²² Decisions about such norms must be national. Americans, to judge from polls, want to help the needy wherever they live, not only in their own communities. In return, they want these needy to adhere to common civilities, such as work, wherever they live. Americans must have a practical and a moral objection to the fact that a million people subsist on welfare in New York City, even if they do not live there. To express this sort of popular will, a national welfare policy is indispensable.

The stakes are ultimately spiritual. The religious traditions of Americans, though diverse as to creed, agree that the individual is a child of God. From that follows immeasurable dignities and responsibilities, even beyond those of citizenship. Americans are called by their Creator to live out meaningful lives, obeying timeless principles and fulfilling their personal destinies. Welfare policy cannot express ultimate beliefs, but it must embody an image of the individual that is at least consistent with this heritage. It must *honor the person*.²³ Not to expect people to function in minimal ways in return for support is deeply to *dishonor* them. The nation can express such convictions only if a national welfare policy endures.

A division lies at the heart of conservatism. Does one question government, or use it for conservative ends? Traditionally, Republicans have opposed federal power, seeking to free society and the economy from unjustified constraints. As long as the national government was liberal, to do this was only prudent. But now that liberalism is in retreat, antigovernment conservatism squanders an opportunity. The leading challenge of America today no longer is to preserve the free economy, crucial though that is. Rather, it is to defend order against the social problems linked to the seriously poor--crime, school failure, drug addiction, as well as dependency. Ordinary Americans want values such as the work ethic and law-abidingness upheld by public as well as private authorities. When they say they want government to work better, this above all is what they mean.

Accordingly, it is time for Republicans to claim the other half of their tradition--to use national power as appropriate to uphold social values. In doing this, they follow the great governmental conservatives in their own past--Alexander Hamilton, Abraham Lincoln, Theodore Roosevelt. Even Ronald Reagan used government as well as curbing its pretensions. It was Reagan, and after him George Bush, who are chiefly responsible for the welfare employment programs we have today, which still afford our best hope of transforming welfare. The way forward in welfare is to continue that reform tradition, and not to abandon it.

²² Mead, *Beyond Entitlement*, chs. 10-11.

²³ Welfare Responsibility Project, *A New Vision for Welfare Reform* (Washington, DC: Center for Public Justice, 1994).



United States
General Accounting Office
Washington, D.C. 20548

Health, Education and Human Services Division

B-261410

June 28, 1995

The Honorable William V. Roth, Jr.
Chairman, Committee on Governmental Affairs
United States Senate

Dear Mr. Chairman:

This letter responds to your April 13, 1995 request that we elaborate on and clarify information presented in our testimony before the Senate Committee on Governmental Affairs on January 25, 1995.¹ The testimony provided information on the incomes and relative poverty status of families receiving Aid to Families With Dependent Children (AFDC) and a comparison of these families' incomes with those of working poor families not receiving AFDC.

On the basis of subsequent discussions with your staff, this letter provides information on (1) the programs that constitute the nation's welfare system; (2) AFDC families' participation in multiple welfare programs; (3) the maximum potential benefit package from AFDC, food stamps, housing assistance, and Medicaid; and (4) the reasons why our estimate of AFDC families' median income was lower than the average benefit levels cited by administration officials for AFDC, food stamps, and housing. This letter also summarizes the results of our analysis of low-income families' relative poverty status.

BACKGROUND

Analyses of families' benefit receipt--especially when families receive multiple benefits--can be done in several ways. In our January 25 testimony, we provided one such analysis of low-income families' benefit receipt and incomes, which was based on data from a national household survey, the Census Bureau's March 1994 Current Population Survey (CPS). The CPS gathers data on families' incomes

'Low-Income Families: Comparison of Incomes of AFDC Families and Working Poor Families' (GAO/T-HEHS-95-63, Jan. 25, 1995).

GAO/HEHS-95-162R Low-Income Families

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and benefit receipt. We analyzed three-person, female-headed AFDC families' receipt of five benefits--AFDC, food stamps, housing assistance, Medicaid, and school lunches.² We compared these families' median monthly income with the incomes of working poor families not receiving AFDC.

We relied on the CPS database for our analysis because it is the only national database available that provides cash equivalents for the benefit package you asked us to examine, according to Census Bureau officials. Moreover, using household survey data for our analysis enabled us to use a consistent methodology in comparing AFDC and low-income families' incomes and is similar to the methodology we used in our 1987 report on AFDC families' incomes and relative poverty status, prepared at your request.³

In subsequent testimony before the House Committee on Agriculture, Subcommittee on Department Operations, Nutrition, and Foreign Agriculture, we provided an overview of the nearly 80 programs that constitute the welfare system. We are providing you a copy of this testimony today (Means-Tested Programs: An Overview, Problems, and Issues (GAO/T-HEHS-95-76, Feb. 7, 1995)). We recently issued a report that expanded on issues presented in that testimony and updated program expenditure data to fiscal year 1993.⁴ (See enclosure I for a complete list of the 80 programs and their expenditures for fiscal year 1993.)

In our February 7 testimony, we also identified welfare programs for which AFDC families may be eligible. However, we did not specify the extent to which AFDC families actually participate in each of these programs or the dollar value of the benefits derived from participating in all possible programs because the data were not available to enable us to do so.

²The CPS provides information not only on families' earned incomes and cash assistance but also has cash equivalents for Medicaid, food stamps, housing assistance, and school lunches. The Census Bureau calculates cash equivalents for both public housing and Section 8 rental assistance.

³Welfare: Income and Relative Poverty Status of AFDC Families (GAO/HRD-88-9, Nov. 4, 1987).

⁴Welfare Programs: Opportunities to Consolidate and Increase Program Efficiencies (GAO/HEHS-95-139, May 31, 1995).

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OVERVIEW OF FEDERAL MEANS-TESTED PROGRAMS

Since the passage of the Social Security Act in 1935, nearly 80 programs have been enacted to help meet the needs of low-income individuals and families. Taken together, these programs constitute the nation's welfare system of means-tested programs.⁵ Authorized by different congressional committees at different junctures, these programs were created to help meet the specific needs of various groups of low-income people. The numbers of programs in this system, and the costs involved, have raised concerns, however, that the system is too costly and complex and should be overhauled. In fiscal year 1993 alone, the federal government spent about \$223 billion to assist low-income Americans of all ages. These expenditures accounted for approximately 16 percent of the fiscal year 1993 federal budget.

Many of these programs are also partially funded by the states; when state dollars are included, the total amount of spending in fiscal year 1993 reached \$311 billion for these programs. Federal spending for these programs grew from \$80 billion in fiscal year 1980; in inflation-adjusted dollars, this represents a 58-percent increase. Table 1 highlights the federal spending levels in some of the largest programs in each six areas of need: (1) cash assistance; (2) medical benefits; (3) food and nutrition; (4) housing; (5) education and training; and (6) other services, such as child care.

⁵Means-tested programs are restricted to individuals or families whose income falls below defined levels and who meet certain other eligibility criteria established for each program. To qualify for assistance, applicants generally must show proof of income and other documentation, which administering agencies must then verify.

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Table 1: Selected Means-Tested Programs, by Type of Assistance

Dollars in billions

Type of assistance/program	Fiscal year 1993 estimated expenditures
Income support	
Aid to Families With Dependent Children	\$13.8
Supplemental Security Income	21.8
Earned Income Credit	10.9
Medical care	
Medicaid	75.0
Medical Care for Certain Veterans	8.3
Food and nutrition	
Food Stamps	23.7
School Lunch	3.8
Special Supplemental Food Program for Women, Infants and Children	2.9
School Breakfast	0.9
Housing	
Section 8 Housing Assistance	11.2
Low-Rent Public Housing	6.2
Education and training	
Stafford Loans and Pell Grants	11.6
Job Training Partnership Act	3.5
Head Start	2.8
Job Opportunities and Basic Skills Training Program	0.7
Other services	
Social Services Block Grant	2.8
Child Care and Development Block Grant	0.9
Child Care--AFDC, Transitional, and At-Risk	0.8
Community Services Block Grant	0.4

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Source: Congressional Research Service; the Joint Tax Committee; and the Departments of Health and Human Services, Education, Agriculture (USDA), and Housing and Urban Development (HUD).

Although the nation's welfare system consists of about 80 means-tested programs, a handful of programs accounts for most of the federal spending them programs and has driven much of the spending growth. The five largest programs--Medicaid, Food Stamps, AFDC, Supplemental Security Income (SSI), and Section 8 Housing Assistance--accounted for 65 percent of federal spending for means-tested programs in fiscal year 1993, about \$145 billion. Federal spending on these programs has more than doubled since 1980 in inflation-adjusted dollars.

Four of these programs--Medicaid, Food Stamps, SSI, and AFDC--are entitlement programs. Entitlement programs guarantee assistance to individuals or families as long as they meet the income and eligibility tests. The Section 8 Housing Assistance program, as well as many other means-tested programs, is a nonentitlement program and, as such, does not guarantee assistance to all who qualify but provides qualified applicants support until funds are depleted.

MANY AFDC FAMILIES RECEIVE
ASSISTANCE FROM MULTIPLE PROGRAMS

Low-income families are likely to be eligible for and participate in several means-tested programs, depending on the programs' specific eligibility criteria and availability. Families receiving AFDC, for example, are automatically eligible for Medicaid; most also qualify for food stamps. Because both are entitlement programs, every AFDC family that qualifies and applies will receive benefits. In contrast, housing assistance is not an entitlement program, and its availability is limited.⁶

In addition to these four major assistance programs, an AFDC family may be eligible for several other programs and services. A mother receiving AFDC, for example, may volunteer, or in some instances be required, to attend

⁶As we noted in our January 25 testimony, all AFDC families participate in Medicaid, while only about 37 percent of AFDC families reported receiving housing assistance in 1993.

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Many means-tested programs require that low-income families meet specific eligibility criteria in addition to income to qualify. Several means-tested education and training programs, for example, are designed exclusively for migrant workers; several types of housing assistance are directed at rural households. Thus, while AFDC families could be eligible for such assistance, many would not qualify on the basis of these additional requirements. Comprehensive data are not available on the extent to which AFDC families are eligible for means-tested programs with additional eligibility criteria or the extent to which they receive benefits from each of the programs for which they are eligible. Without such data, we cannot place a dollar value on the full array of benefits that AFDC families may be receiving.

ALTERNATIVE ANALYSIS OF LOW-INCOME FAMILIES' INCOMES

The analysis of low-income families' incomes that we presented in our January 25 testimony focused on the most significant of the means-tested programs available to AFDC families--AFDC, food stamps, housing assistance, and Medicaid.⁷ We focused on these benefits, as well as school lunches, because of their significance and because cash equivalents were readily available through the CPS.

In our analysis of AFDC families' incomes, we included all female-headed, three-person AFDC families. As a result, our analysis of AFDC families' median incomes included families who did not receive all five types of benefits, as well as those who did. To estimate the maximum benefits families may receive, we reanalyzed the CPS data, this time including only AFDC families who received all five types of benefits. Nearly one-fourth of AFDC families reported receiving such benefits.

In addition, on the basis of technical clarifications from Census Bureau officials on the methodologies they used to develop cash equivalents, we adjusted upward our cash equivalent calculations for housing assistance and Medicaid. Attaching a dollar value to Medicaid benefits is especially complex and controversial. For that reason, we used two different valuation approaches for Medicaid--

⁷We did not include SSI in our analysis because AFDC recipients are not eligible for SSI.

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fungible⁸ and market value.⁹ The Census Bureau has adopted the fungible value approach.

To measure the dollar value of this benefit package, we estimated the median monthly income of the AFDC families who received such benefits. The median monthly income for these families was \$903 when Medicaid was valued using the fungible valuation approach; the median monthly income increased to \$1,090 when Medicaid benefits were valued at market. As stated earlier, the estimates presented in our testimony--\$633 (fungible) and \$767 (market)--represent the median incomes of all families receiving AFDC, whereas our revised estimates include only those families who received all five types of benefits. All income amounts represent medians; individual families may have benefits valued considerably higher, or lower, than the median. For example, about 5 percent of the AFDC families who received all five types of benefits had monthly incomes totaling at least \$1,524.

We also calculated the median dollar value for each individual benefit to compare our estimates with the average benefit amounts cited in your letter. Table 1 shows a breakdown of the median incomes from each of the five benefits.

⁸The fungible value approach counts Medicaid benefits as income only to the extent that they free up resources that could have been spent on medical care. For example, if family income is not sufficient for the family's basic food and housing requirements, the fungible value methodology treats Medicaid as having no income value.

⁹The market value is calculated by dividing actual expenditures by the number of people enrolled in a given risk class.

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Table 1: AFDC Families' Median Monthly Income, by Type of Assistance

Type of assistance/ program	Median monthly income
AFDC	\$283
Food stamps	175
Housing	213
School lunch	52
Medicaid (market value)	\$329

Source: March CPS, 1994.

COMPARISON OF MEDIAN INCOMES AND
AVERAGE BENEFIT LEVELS

The median incomes in table 1 are lower than the benefit amounts that administration representatives cited for AFDC, food stamps, and housing assistance. As cited in your correspondence, these benefit levels were as follows: \$370 per month for AFDC, \$300 per month for food stamps, and \$500 per month for housing assistance for a family of three. We have identified several factors to help explain why the incomes estimated using the CPS were lower than those obtained using administrative program data, as noted below.

One factor is that the benefit level cited for the Food Stamp Program--\$300--approximates the maximum monthly potential benefit available to a three-person family as of January 1994, assuming the family has no countable income.¹⁰ AFDC benefits are counted as income, however, to determine food stamp benefit levels. Under Food Stamp Program rules, a family's food stamp benefit is reduced by \$.30 for each dollar of countable cash income; certain amounts are

¹⁰The maximum food stamp benefit for a three-person household as of September 1994 was \$295 in the 48 contiguous states and the District of Columbia; food stamp maximum benefits are higher in Alaska and Hawaii.

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excluded from consideration as cash income.¹¹ A family receiving assistance from both AFDC and the Food Stamp Program may thus not be eligible for the maximum food stamp benefit. AFDC households that also received food stamps had monthly food stamp benefits averaging \$232 in 1993, according to recently published USDA data.¹²

Other factors that contributed to our per program estimates being lower than those cited by administration officials are associated with the data source we used. The CPS is an annual household survey; as a result, households that reported receiving AFDC or other benefits at some time the previous year may not have been receiving such assistance the whole year. For example, about 30 percent of the AFDC families included in our revised analysis did not receive AFDC benefits the whole year; about 20 percent of AFDC families received food stamps for less than the whole year. As a result, these households' benefits, as recorded on the CPS, are lower than they would have been had the households received benefits the whole year. In addition, the CPS generally relies on self-reported data from households; research indicates that survey respondents generally underreport incomes and benefit receipt.

Moreover, the housing assistance amounts in the CPS for families residing in public housing or receiving section 8 rental assistance are not amounts that survey respondents reported. Rather, Census imputed these amounts to

¹¹For AFDC households, food stamp benefits are calculated by deducting from the family's AFDC benefit the maximum deductions allowed under the Food Stamp Program for a nonaged, nondisabled family: a total of \$338. This consists of a standard deduction of \$131, given in all households, plus a deduction of \$207 for excess shelter costs.

¹²According to Food Stamp Program administrative data, AFDC households receiving food stamps averaged 3.3 household members. In comparison, three-person food stamp households received food stamp benefits averaging \$215 per month. (See Characteristics of Food Stamp Households, Summer of 1993, U.S. Department of Agriculture, Food and Consumer Service, Office of Analysis and Evaluation (Washington, D.C.: May 1995.)

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individual families in the survey.¹³ In the CPS data we used for our analysis, the highest possible monthly housing assistance was \$336. Thus, the housing benefit amounts in the CPS do not reflect housing subsidies actually paid by HUD or the costs of public housing.

LOW-INCOME FAMILIES'
RELATIVE POVERTY STATUS

Using our revised analysis of AFDC families' incomes, we compared AFDC families' relative poverty status with that of working poor families not receiving AFDC.¹⁴ We found that the median monthly income for AFDC families receiving all five types of benefits was below the poverty threshold of \$1,027 for a family of three when Medicaid was valued using the fungible approach (\$903). When valued at market, Medicaid benefits increased these families' median incomes to a level slightly above the poverty threshold (\$1,090).

In comparison, working poor non-AFDC families had a median monthly income of \$905 (fungible) or \$936 (market).¹⁵ Thus, when comparing AFDC and working poor families' incomes, the method used to value Medicaid determines both whether AFDC families' median income is above or below the poverty threshold, as well as whether it is higher than or comparable with that of working poor families.

Thus, working poor families had median monthly incomes comparable with--or lower than--AFDC families, depending on

¹³The characteristics that determine the housing assistance income amount are region of the country, annual family income, and the number of bedrooms in the dwelling. Under Census' imputation scheme, there are four regions of the country, three income ranges, and three bedroom number categories.

¹⁴For our analysis, we defined working poor as non-AFDC female-headed families of three, in which the family head worked full time for a whole year and earned up to 1-1/4 times the minimum wage or \$921 per month.

¹⁵Working poor non-AFDC families may be eligible for and receive other types of assistance, including food stamps, housing assistance, and Medicaid. The median incomes we cite here are somewhat higher than those we reported in our testimony--\$819 (fungible) and \$926 (market)--due to the adjustments we made in our cash equivalent calculations for housing assistance and Medicaid.

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the method used to value Medicaid benefits. Moreover, as we noted in our testimony, working poor families may incur significant work-related costs, such as paid child care. Working poor families with child care costs spent on average \$260 a month, according to a Census Bureau survey. Deducting such costs from working poor families' median monthly income would increase the number of such families that are financially worse off than some AFDC families.

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If you or your staff have any questions concerning this letter, please contact me at (202) 512-7215.

Sincerely yours,



Jane L. Ross
Director, Income Security Issues

Enclosure - 1

ENCLOSURE I

ENCLOSURE I

ESTIMATED EXPENDITURES FOR MEANS-TESTED ASSISTANCE PROGRAMS
(Fiscal Year 1993)

Table I.1: Summary of Welfare Programs (Fiscal Year 1993)

Benefit category	Estimated expenditures (in millions)		
	Federal	State	Total
Income support	\$53,325	\$20,356	\$73,681
Medical care	86,293	61,493	147,786
Food and nutrition	33,185	1,544	34,729
Housing	22,757	64	22,821
Education	16,690	632	17,322
Training	4,733	562	5,295
Services	5,536	3,866	9,402
Total	\$222,519	\$88,517	\$311,036

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Table I.2: Income Support Programs (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Average monthly recipients (in thousands)
	Federal	State	Total	
Aid to Families With Dependent Children ^a	\$13,757	\$11,302	\$25,059	14,144 ^b
Supplemental Security Income ^a	21,801	3,908	25,709	6,021 ^c
Earned Income Credit ^{a, d}	10,883	^e	10,883	14,004
Pensions for Needy Veterans, Their Dependents, and Survivors ^a	3,477	0	3,477	896
Foster Care ^a	2,524	1,171	3,695	233
General Assistance (nonmedical care component) ^a	0	3,350	3,350	1,168
Adoption Assistance ^f	272	231	503	78
Assistance to Refugees and Cuban/Haitian Entrants (cash components) ^f	74	0	74	26
Emergency Assistance ^a	394	394	788	165 ^f
Dependency and Indemnity Compensation and death compensation for parents of veterans ^a	60	0	60	30
General Assistance to Indians ^a	83	0	83	56
Total	\$53,325	\$20,356	\$73,681	^g

^aCongressional Research Service.^bChildren and/or parents.^cAnnual number.^dData are from the Joint Tax Committee and refer to the calendar year in which the credit was received. Benefits exclude tax expenditures (reductions in taxes owed), which totalled \$2.3 billion in 1993.^eNot available.^fDepartment of Health and Human Services.^gFamilies or households.^hBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

Table I.3: Medical Care Programs (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Average monthly recipients (in thousands)
	Federal	State	Total	
Medicaid ^a	\$74,953	\$55,886	\$130,839	33,432 ^b
Medical Care for Veterans Without Service- Connected Disability ^c	8,349	0	8,349	601 ^d
General Assistance (medical care component) ^c	0	5,189	5,189	^e
Indian Health Services ^c	1,525	0	1,525	1,300 ^b
Maternal and Child Health Services Block Grant ^c	558	418	976	11,600
Community Health Centers ^c	559	^e	559	6,200 ^b
Title X Family Planning Services ^c	173	0	173	4,000 ^b
Migrant Health Centers ^c	57	^e	57	550 ^b
Medical Assistance to Refugees and Cuban/Haitian Entrants ^a	119	0	119	37
Total	\$86,293	\$61,493	\$147,786	^f

^aDepartment of Health and Human Services.^bAnnual number.^cCongressional Research Service.^dAnnual number of episodes.^eNot available.^fBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

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Table I.4: Food and Nutrition Programs (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Average monthly recipients (in thousands)
	Federal	State	Total	
Food Stamps ^a	\$23,698	\$1,544	\$25,242	26,983
School Lunch Program (free and reduced-price segments) ^a	3,791	^b	3,791	4,800
Special Supplemental Food Program for Women, Infants, and Children ^a	2,928	^b	2,928	5,921
School Breakfast Program (free and reduced price segments) ^a	877	^b	877	4,844
Child and Adult Care Food Program ^a	697	^b	697	2,119
Nutrition Program for the Elderly (no income test, but preferences for those with greatest economic or social needs) ^c	607	^b	607	3,200 ^d
The Emergency Food Assistance Program ^a	207	^b	207	7,759 ^e
Summer Food Service Program for Children ^a	228	^b	228	2,057
Commodity Supplemental Food Program ^a	82	^b	82	371
Food Distribution Program on Indian Reservations ^a	68	^b	68	116
Special Milk Program (free segment) ^a	2	^b	2	61
Total	\$33,185	\$1,544	\$34,729	^f

^aDepartment of Agriculture.^bNot available.^cCongressional Research Service.^dAnnual number.^eFamilies or households.^fBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

Table 1.5: Housing Programs

Program	Estimated expenditures (in millions)			Families or units during the year (in thousands)
	Federal	State	Total	
Section 8 Low-Income Housing Assistance ^a	\$11,158	\$0	\$11,158	2,812 ^b
Low-Rent Public Housing ^a	6,180	0	6,180	1,408 ^b
Low-Income Home Energy Assistance ^c	1,346	64	1,410	5,600
Rural Housing Loans ^d	1,831	0	1,831	31
Section 236 Interest Reduction Payments ^a	635	0	635	510 ^b
Rural Rental Housing Loans ^d	574	0	574	15
Rural Rental Assistance ^d	404	0	404	34 ^b
Weatherization Assistance ^c	186	0	186	107
Section 101 Rent Supplements ^a	55	0	55	19 ^b
Section 235 Homeownership Assistance ^a	62	0	62	95 ^b
Farm Labor Housing Loans and Grants ^d	32	0	32	1
Rural Housing Repair Loans and Grants ^d	26	0	26	6 ^a
Rural Housing Preservation Grants ^d	23	0	23	6
Indian Housing Improvement Grants ^c	20	0	20	1 ^b
Rural Self-Help Technical Assistance Grants and Site Loans ^d	19	0	19	r
Home Investment Partnerships ^a	206	r	206	r
Total	\$22,757	\$64	\$22,821	s

^aDepartment of Housing and Urban Development.^bUnits.^cCongressional Research Service.^dDepartment of Agriculture.^eLoans or grants.^fNot available.^gBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

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ENCLOSURE I

Table I.6: Education Programs (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Annual Number of recipients (in thousands)
	Federal	State	Total	
Stafford Loans ^a	\$5,825	\$0	\$5,825	5,300
Pell Grants ^a	5,788	\$0	5,788	3,808
Head Start ^b	2,800	560	3,360	714
College Work-Study Program ^a	617	0	617	713
Supplemental Educational Opportunity Grants ^a	583	0	583	991
Federal TRIO Programs ^b	385	0	385	648
Chapter 1 Migrant Education Program ^b	303	0	303	402
Perkins Loans ^a	181	0	181	697
State Student Incentive Grant Programs ^a	72	72	144	241
Fellowships for Graduate and Professional Study ^b	63	0	63	6
Health Professions Student Loans and Scholarships ^a	49	0	49	36
Follow Through ^b	9	0	9	^c
Migrant High School Equivalency Program ^b	8	0	8	3
Ellender Fellowships ^b	4	0	4	6
College Assistance Migrant Program ^b	2	0	2	0
Child Development Associate Scholarships ^b	1	0	1	^f
Total	\$16,690	\$632	\$17,322	^e

^aDepartment of Education.^bCongressional Research Service.^cNot available.^dBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

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Table I.7: Training Programs (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Average monthly recipients (in thousands)
	Federal	State	Total	
JTPA (Training Services for Disadvantaged Adults) ^a	\$1,015	\$0	\$1,015	358
JTPA (Training Services for Disadvantaged Youth) ^a	677	0	677	281
JTPA (Summer Youth Employment and Training Program) ^a	849	0	849	569
JTPA (Job Corps) ^a	966	0	966	102
Job Opportunities and Basic Skills Training Program ^a	735	471	1,206	542
Senior Community Service Employment Program ^a	396	44	440	65
Foster Grandparents ^a	65	30	95	22
Senior Companions ^a	30	17	47	13
Total	\$4,733	\$562	\$5,295	b

^aCongressional Research Service.^bBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

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Table I.8: Services (Fiscal Year 1993)

Program	Estimated expenditures (in millions)			Annual number of recipients (in thousands)
	Federal	State	Total	
Social Services Block Grant (Title XX)*	\$2,800	\$3,332	\$6,132	^b
Child Care and Development Block Grant*	893	^b	893	^b
AFDC and Transitional Child Care*	583	420	1003	474 ^c
"At Risk" Child Care*	264	114	378	219 ^c
Community Services Block Grant*	441	0	441	^b
Legal Services*	357	0	357	^b
Emergency Food and Shelter program*	129	0	129	^b
Social Services for Refugees and Cuban/Haitian Entrants ^d	69	0	69	114
Total	\$5,536	\$3,866	\$9,402	^e

*Congressional Research Service.

^bNot available.^cChildren and/or parents^dDepartment of Health and Human Services.^eBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.

(105932)

GAO/HEHS-95-162R Low-Income Families

United States General Accounting Office

GAO

Testimony

Before the Subcommittee on Department Operations, Nutrition
and Foreign Agriculture, Committee on Agriculture
House of Representatives

For Release on Delivery
Expected at 9:30 a.m.
Tuesday, February 7, 1995

MEANS-TESTED PROGRAMS

An Overview, Problems, and Issues

Statement of Jane L. Ross, Director,
Income Security Issues
Health, Education, and Human Services Division



GAO/T-HEHS-95-76

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss the programs that compose the welfare system and the issues that warrant attention in the current reform effort. Over the years, nearly 80 means-tested programs for low-income individuals and families have been created to help meet the specific needs of various groups. In fiscal year 1992, the federal government spent about \$208 billion through these programs to meet the needs of low-income Americans of all ages.

Means-tested programs are restricted to individuals or families whose income falls below defined levels and who meet certain other eligibility criteria established for each program. To qualify for assistance, applicants generally must show proof of income and other documentation, which administering agencies must then verify.

Certain means-tested programs, called entitlements, guarantee assistance to individuals or families as long as they meet the income and eligibility tests. The largest of these entitlement programs are Aid to Families With Dependent Children (AFDC), Medicaid, Food Stamps, and Supplemental Security Income (SSI). Other means-tested programs, such as housing and energy assistance programs, are nonentitlements. Nonentitlements do not guarantee assistance to all those who qualify. Instead, they provide qualified applicants support until appropriated funds are depleted.

You asked us to present an overview of the means-tested programs that compose the present welfare system, the amount of money spent on these programs, and the extent to which a typical family might be entitled to assistance and services. I will also describe some of the problems faced by administrators in managing these programs and by recipients in acquiring access to them. Finally, I will comment on what is known about the outcomes of these programs. My testimony is drawn from GAO's past work and other reports on the issues related to the programs within the welfare system. In deciding which programs to include in my testimony, we followed the subcommittee's suggestion that we discuss the programs addressed in the Congressional Research Service's (CRS) report on cash and noncash benefits for persons with limited income, dated September 1993.¹

In brief, while there are about 80 means-tested programs, most of the federal cost comes from five programs. The many means-tested programs are costly and difficult to administer. On one hand, these programs sometimes overlap one another; on the other hand, they are often so narrowly focused that gaps in services

¹Cash and Noncash Benefits for Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1990-92 (EPW-93-832), Congressional Research Service, Library of Congress, September 15, 1993.

hinder clients. We note that although advanced computer technology is essential to efficiently running the programs, it is not being effectively developed or used. Due to their size and complexity, many of these programs are inherently vulnerable to fraud, waste, and abuse. We also point out that some of our work has shown that the welfare system is often difficult for clients to navigate. Finally, administrators have not articulated goals and objectives for some programs and have not collected data on how well the programs are working.

OVERVIEW OF FEDERAL MEANS-TESTED PROGRAMS

Over the years, the Congress has established a set of cash and noncash benefit programs to assist low-income people. As you can see on our display (see attachment 1), in fiscal year 1992, the federal government provided about \$208 billion in six areas of need for low-income people. When state dollars are included, the total amount of spending reached \$290 billion.

The welfare system comprises about 80 programs, representing about 15 percent of total federal outlays in fiscal year 1992. Included in the system are the AFDC, Medicaid, SSI, and Food Stamp programs. These four means-tested programs accounted for 20 percent of the \$700 billion spent in fiscal year 1993 on the 10 largest entitlement and mandatory spending programs. The system's nearly 80 programs target low-income individuals and families to meet two broad objectives: (1) to provide basic support and health care for those who are often unable to support themselves--the aged, blind, disabled, and children--and (2) to provide transitional assistance to able-bodied adults and their families while promoting self-sufficiency. Table 1 highlights the federal spending levels in some of the largest programs in each area.

Table 1: Selected Means-Tested Programs in Six Functional Areas

Dollars in billions

Functional area/program	FY 1992 estimated expenditures
Income support	
Aid to Families With Dependent Children	\$13.6
Supplemental Security Income	18.7
Earned Income Tax Credit (EITC)	9.6
Medical care	
Medicaid	67.8
Medical Care for Certain Veterans	7.8
Food and nutrition	
Food Stamps	23.5
School Lunch	3.9
Special Supplemental Food Program for Women, Infants and Children (WIC)	2.6
School Breakfast	.8
Housing	
Section 8 Housing Assistance	12.3
Low-Rent Public Housing	5.0
Education and training	
Stafford Loans and Pell Grants	11.1
Job Training Partnership Act (JTPA)	3.9
Head Start	2.2
Job Opportunities and Basic Skills (JOBS) Training Program	.6
Other services	
Social Services Block Grant (SSBG)	2.8
Child Care and Development Block Grant (CCDBG)	.8
Child Care--AFDC, Transitional, and At-Risk	.8
Community Services Block Grant (CSBG)	.4

Source: CRS, 1993.

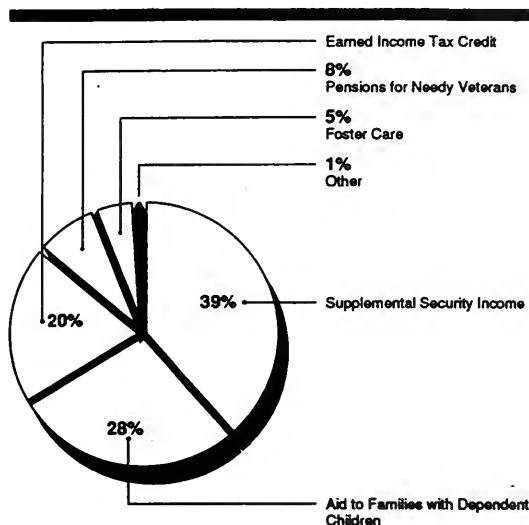
Providing Income Support

The federal government and states together spent more than \$66 billion in fiscal year 1992 through 10 different programs that provided cash income to those considered in need of help, from poor mothers with children to certain veterans and refugees.² The federal government provided more than \$48 billion of this total through its support of AFDC, SSI, and other cash assistance programs. Appendix I lists estimated expenditures for the nearly 80 means-tested assistance programs.

AFDC is one of the nation's largest welfare programs, and it lies at the heart of current reform proposals. AFDC was designed to help needy children deprived of support because of the continued absence, incapacity, or unemployment of a parent. Program support varies greatly among the states, with monthly benefits ranging from \$120 in Mississippi to \$923 in Alaska. States pay 46 percent of total AFDC costs. In fiscal year 1992, the federal government and states spent \$25 billion to help about 14 million recipients in 5 million families. The federal government share was \$13.6 billion. A vast majority of AFDC children live with one parent--usually their mother. In fact, in 1991, 53 percent of children receiving AFDC had parents who had never been married. As shown in figure 1, AFDC accounted for about 28 percent of federal spending on income support programs in fiscal year 1992.

²Total expenditures and number of programs do not include the states' general assistance programs listed in appendix I, which receive no federal funds.

Figure 1: Percentages of Means-Tested Federal Income Support Spending by Program (Fiscal Year 1992)



Note: Percentages do not add to 100 due to rounding.

Source: GAO analysis based on CRS fiscal year 1992 data.

SSI is a primary source of cash income to aged, blind, or disabled individuals with low incomes and limited resources. The program follows uniform nationwide eligibility requirements and is mostly federally funded. In 1992, almost 6 million people received SSI benefits, and expenditures totaled almost \$23 billion--about \$19 billion of that in federal dollars.

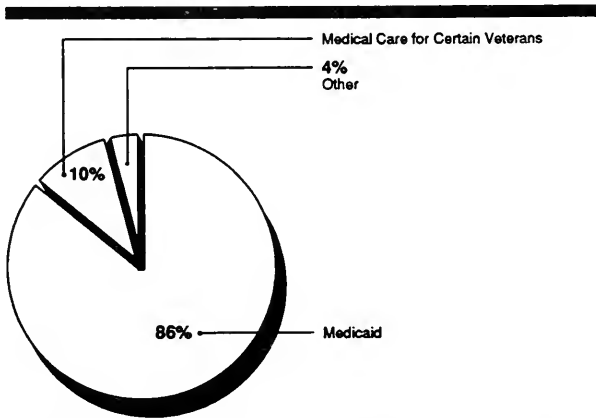
Other cash assistance programs range from pensions for needy veterans (\$3.7 billion) to payments to Native Americans (\$46 million). Included among these is the Earned Income Tax Credit (EITC), which supplements the earnings of working parents with low incomes. Almost 13.3 million families benefited from this tax credit in fiscal year 1992, at a federal cost of nearly \$9.6 billion.

Meeting Medical Needs

The federal government and states together provided about \$129 billion through eight programs to assist low-income individuals with medical care in fiscal year 1992.³ Federal spending accounted for about \$78.5 billion of these expenditures, with the states responsible for the remainder. Five of the eight programs were totally federally funded, including those for Native American and migrant worker health services, at a cost of about \$10 billion.

As shown in figure 2, the lion's share of these federal dollars--about 86 percent or \$68 billion--is spent on the Medicaid program, for which states spent an additional \$50 billion. This federal and state partnership pays for health care services for the aged, blind, and disabled (about 70 percent of expenditures) and for certain low-income people in families with children. As with AFDC, programs vary considerably among the states, which independently establish eligibility standards and covered services. In fiscal year 1992, the program covered 31 million people.

Figure 2: Percentages of Means-Tested Federal Medical Care Spending by Program (Fiscal Year 1992)



Source: GAO analysis based on CRS fiscal year 1992 data.

³Total expenditures and number of programs do not include the medical component of states' general assistance programs, which receive no federal funds.

The other programs in this category include medical care for certain veterans, Native Americans, certain refugees, and migrant workers. The Maternal and Child Health Services Block Grant also falls under this category. Each of these smaller programs generally serves about a million or fewer individuals.

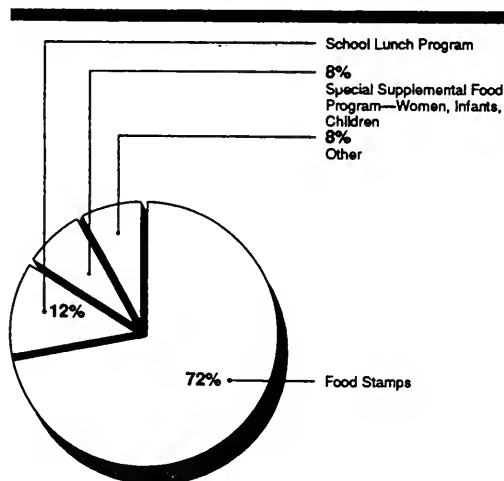
Ensuring Adequate Nutrition

The 11 programs providing food aid to low-income populations are almost entirely funded by the federal government. Programs range from those with general application to those focused on particular groups, such as the School Lunch and Breakfast programs and one for pregnant and parenting women. In fiscal year 1992, these nutrition programs totaled \$34 billion, with \$1.4 billion contributed by states.

As shown in figure 3, the Food Stamp program, by far the largest program in this category, is almost totally funded by federal dollars--\$23.5 billion in fiscal year 1992.⁴ The program was established in 1964 and expanded nationally in 1975, and eligibility requirements and benefit amounts are uniform nationwide. This program reached 27 million people a month in 1992; half were children and about 10 percent were elderly or disabled. About 20 percent of Food Stamp households include workers.

⁴States spent an additional \$1.4 billion to administer this program.

Figure 3: Percentages of Means-Tested Federal Food and Nutrition Spending by Program (Fiscal Year 1992)



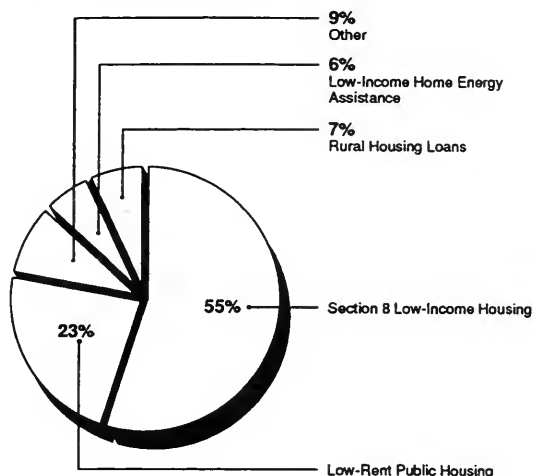
Source: GAO analysis based on CRS fiscal year 1992 data.

Other programs include the School Lunch program, which served 13 million low-income children a month at a cost of almost \$4 billion in fiscal year 1992, and the School Breakfast program, which reached about 4.5 million children at a cost of about \$780 million. An additional \$2.6 billion was spent on the Special Supplemental Food Program for Women, Infants, and Children (WIC), which reached 5.4 million recipients each month of fiscal year 1992. Other programs serve the elderly, child care centers, and those in need of emergency food aid.

Helping With Housing Needs

Sixteen programs are designed to meet the housing needs of low-income Americans. Some of these programs are targeted to particular areas or groups--such as, for rural or Native American housing needs. Expenditures for these programs totaled \$22.2 billion in fiscal year 1992--all in federal dollars. The largest programs are shown in figure 4, along with their percentage share of funds spent on housing assistance.

Figure 4: Percentages of Means-Tested Federal Housing Assistance by Program (Fiscal Year 1992)



Source: GAO analysis based on CRS fiscal year 1992 data.

The Section 8 Low-Income Housing Assistance program, on which the federal government spent about \$12 billion in 1992, cost more than double the cost of the next largest program--Low Rent Public Housing--at \$5 billion. The Section 8 program provided assistance to almost three million families, while Public Housing reached another 1.4 million.

The other 14 programs are designed to meet a range of needs, including improving rural, Native American, and farm labor housing, and providing rental and interest reduction assistance. Two programs help individuals pay their home heating and cooling bills.

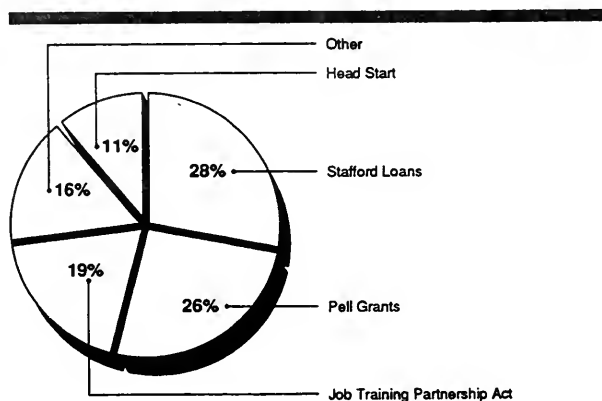
Promoting Self-Sufficiency Through Education and Training

Twenty-three federal education and training programs help low-income individuals enhance their job skills and improve their chances for becoming or remaining self-sufficient. Accounting for

about \$21 billion in mostly federal expenditures, the programs range from loans to college students to assistance targeted to migrant workers. States contribute about 5 percent of the funds expended.

The three most prominent education programs in this category are Stafford Loans (\$5.7 billion in federal spending in fiscal year 1992), Pell Grants (\$5.4 billion), and Head Start (\$2.2 billion in federal spending augmented by \$551 million from states). Figure 5 shows the percent of federal funds spent on education and training attributed to these programs. In fiscal year 1992, Stafford Loans and Pell Grants helped more than 9.4 million individuals attend college or training,⁵ while Head Start helped about 621,000 disadvantaged preschoolers prepare themselves for entering elementary school.

Figure 5: Percentages of Means-Tested Federal Education and Training Spending by Program (Fiscal Year 1992)



Source: GAO analysis based on CRS fiscal year 1992 data.

⁵Although means tested, Stafford Loans may be given to families with appreciably higher incomes than most of the other programs.

Federal dollars also drive the training programs designed to help low-income individuals and families increase their ability to support themselves through work. The Job Training Partnership Act (JTPA) provided almost \$4 billion in federal funds in fiscal year 1992 to help about 1.4 million disadvantaged adults and youth find jobs and increase their earnings capacity. Further, the federal government and states share the costs (\$1 billion in fiscal year 1992) of the Job Opportunities and Basic Skills Training (JOBS) program, which is dedicated to helping AFDC parents get jobs and assume responsibility for the support of their children.

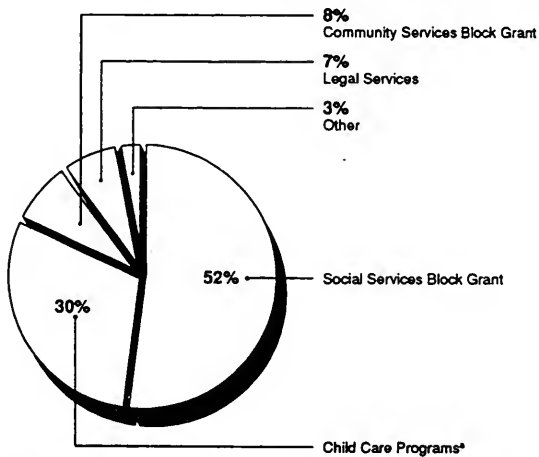
Helping Individuals With Social Services Needs

Eight federal programs meet the various social services needs of low-income individuals, with most of the dollars distributed through block grants.⁶ These federal and state dollars can be used to buy a broad range of services, including child care to help working families stay off welfare and legal services. The federal government contributed almost two-thirds of the \$8.6 billion spent in this area in fiscal year 1992.

As shown in figure 6, the largest program--accounting for almost half of the social service program funds--is the Social Services Block Grant (SSBG), or Title XX, which is used for such services as child care, assistance for the disabled, and child protective services. Also included under this category is the Community Services Block Grant, which supports various community-based antipoverty activities.

⁶Under block grants, states and localities have broad discretion to decide what specific programs to provide, as long as they are directly related to the goals of the grant program.

Figure 6: Percentages of Means-Tested Federal Spending for Other Services by Program (Fiscal Year 1992)



*Includes the Child Care and Development Block Grant, AFDC and Transitional Child Care, and At-Risk Child Care.

Source: GAO analysis based on CRS fiscal year 1992 data.

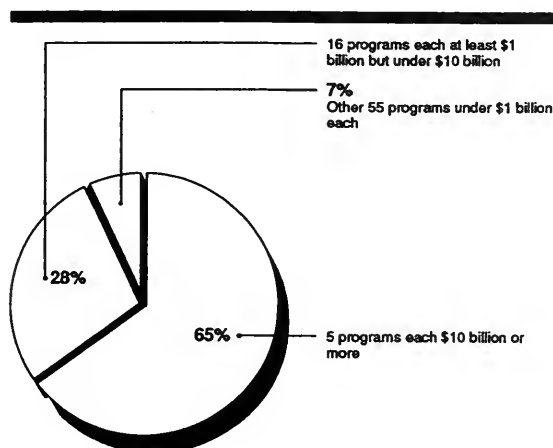
Four federal programs were designed specifically to help low-income families afford child care: the AFDC Child Care Program, the Transitional Child Care Program, At-Risk Child Care, and the Child Care and Development Block Grant. These child care programs cost \$2.2 billion in fiscal year 1992, 73 percent of which was paid for by federal dollars.

Federal Welfare Spending Driven by a Few Large Programs

The five largest means-tested programs--Medicaid, Food Stamps, AFDC, SSI, and Section 8 Housing Assistance--accounted for 65 percent of federal spending on low-income individuals in fiscal year 1992. Spending for these five programs, together with that for another 16 programs with expenditures of at least \$1 billion each, made up about 93 percent of all federal means-tested dollars, as shown in figure 7. The remaining 55 programs accounted for only

7 percent, or \$14 billion, of federal spending for low-income individuals.

Figure 7: Federal Expenditures on Selected Means-Tested Programs (Fiscal Year 1992)



Source: GAO analysis based on CRS fiscal year 1992 data.

The major programs are the key to the growth in federal spending on low-income individuals. Federal spending for all means-tested programs grew from \$39 billion in fiscal year 1975 to \$208 billion in fiscal year 1992. In inflation-adjusted dollars, this represents a 106-percent increase. As shown on our display (see attachment 2), federal spending for Medicaid, Food Stamps, AFDC, SSI, and the two major housing programs--Section 8 Housing Assistance and Low-Rent Public Housing--combined increased from \$61 billion in fiscal year 1975 to \$155 billion in constant 1993 dollars, an increase of 154 percent. This growth was driven by a 300-percent increase in real Medicaid costs since 1975. In recent years, about 70 percent of Medicaid expenditures have assisted the aged, blind, and disabled.

BENEFICIARIES RECEIVE ASSISTANCE
FROM MULTIPLE PROGRAMS

Most beneficiaries of means-tested programs receive assistance from more than one program. The programs I have just described are administered by different federal and state agencies and have a variety of different eligibility requirements. In many cases, clients have to appear at various offices to apply for benefits and bring with them a variety of documentation. Although much of the basic documentation is the same, the eligibility rules are just different enough that it is not uncommon for an applicant to have to return once or twice more to complete the application and interview process.

Notwithstanding the difficulties in actually obtaining benefits, a low-income family that qualifies for one of the cash assistance programs is typically eligible for other noncash programs. The following table shows the percentages of households in the AFDC and SSI programs that received benefits in 1992 from multiple programs.

Table 2: Multiple Program Participation, 1992

	Percent of Households Receiving--	
	AFDC	SSI
Who Are Also Receiving--		
Medicaid	96	100
Food Stamps	86	46
Public or subsidized rental housing	30	24
Total households (in thousands)	4,057	3,957

Source: Committee on Ways and Means, U.S. House of Representatives, Overview of Entitlement Programs: 1994 Green Book, July 15, 1994.

As table 2 shows, for example, more than 4 million households were receiving AFDC in 1992. About 96 percent of these were also receiving Medicaid, 86 percent were receiving food stamps, and 30 percent were receiving assisted housing benefits. Further, as you can see in the table, SSI recipients typically received Medicaid

and often received food stamps in addition to their cash assistance. We should note that because the cash assistance, Medicaid, and Food Stamp programs are related entitlements, when there is caseload growth in AFDC or SSI, the Medicaid and Food Stamp caseloads also increase.

An Illustration: Benefits for a Mother and Two Children

To help understand what a benefit package might consist of for a low-income family, consider a typical mother with two children receiving AFDC. In January 1992, her median cash benefit would have been about \$372 per month. This AFDC mother would also be eligible for noncash benefits, such as Medicaid. However, as with AFDC, states are free to design and administer their Medicaid programs as long as they adhere to federal guidelines. As a result, the types and scope of benefits offered, and the amounts paid for services, vary considerably from state to state. The mother would have also qualified for about \$275 worth of food stamps per month.

Unlike AFDC, Medicaid, and Food Stamps, which are entitlements, funding for housing assistance is limited. In 1992, about 30 percent of AFDC families received public or subsidized rental housing assistance.

In addition to these four major assistance programs, the typical AFDC family may be eligible for several other programs and services. The mother may volunteer, or in some instances be required, to attend school or training, paid for through a federal training program. She may also receive child care assistance so that she can attend training, school, or work. Further, the family could receive other benefits, such as school breakfasts and lunches, cash assistance to pay energy bills, and additional food assistance for pregnant mothers under the WIC program. Our display (see attachment 3) shows all of the means-tested programs, as well as those that may be available to this family.

Efforts are being made at the state and local levels to simplify and coordinate the network of federal public assistance programs. But doing this takes considerable time and resources and requires pulling together multiple federal funding streams while continuing to meet myriad federal rules and regulations.

Our display (see attachment 4) illustrates how complex the current system can be for a mother with two children applying for benefits and services. For cash assistance, she often has to furnish basic documentation and evidence to multiple offices, and each office may require slightly different information. She probably has to go to different offices to obtain housing assistance, additional nutrition program benefits, child care assistance, and job training. These offices frequently are located

in different parts of the city, which may require the family to take public transportation back and forth across town.

PROGRAMS ARE COSTLY AND DIFFICULT TO RUN

I would now like to turn my attention to some of the enormous challenges that federal, state, and local program officials face as they attempt to administer these programs efficiently and equitably. At least 28 federal departments and agencies, and untold numbers at the state and local levels, are responsible for administering and overseeing these means-tested programs. To ensure that benefits are correctly awarded, these entities employ countless numbers of individuals to perform various functions, including client intake, income and eligibility determination and redetermination, and quality control review.

Intake workers evaluate the application and other required documentation, such as income statements, proof of citizenship, and birth certificates for each family member. Other staff follow the often numerous rules and requirements to determine eligibility and level of benefits. Still others verify the eligibility decisions. And still others conduct processing and support functions.

To understand the administrative resources devoted to these programs, consider the operating costs for some of the largest. The SSI program is difficult to administer because it must determine the economic status of the applicant, in addition to the nature and severity of his or her disability. The Social Security Administration (SSA) employs more than 21,000 people nationwide to run the SSI program. States and the federal government also spent \$2.6 billion in fiscal year 1992 to operate the AFDC program. Further, in 1992, states and the federal government spent about \$4.3 billion, or 3.5 percent of total outlays, to operate Medicaid. Finally, in 1993, the federal government and states spent more than \$3 billion to administer the Food Stamp program--much of which is directed toward policing activities.

The administrative burden associated with processing applications and determining eligibility does not stop with program staff. The clients whom welfare programs are designed to help often express frustration about the arduous and complex process involved in applying for benefits. Some clients have so much difficulty completing the application process that they give up and never receive the help for which they may be entitled.

PROGRAMS OVERLAP AND ARE FRAGMENTED

As a result of the growth in welfare programs over time, many overlap, adding unnecessary administrative costs at each level of government. For example, we identified nine employment training programs that frequently target the same clients, share the same

goals, and provide similar services.⁷ These programs are administered by five different federal departments. These separate bureaucracies at the federal level are often duplicated at the state and local levels, raising questions about the efficiency of the employment training system.

Other programs are so narrowly focused that some groups targeted for services fall through the cracks. Take child care, for example. The Congress created four child care programs to help low-income mothers support themselves and their families. But, the fragmented nature of these programs--with entitlements to some client categories, time limits on others, and activity limits on still others--produces service gaps for mothers trying to work. For example, a mother who is receiving child care assistance is at risk of losing it if she gets laid off because certain child care programs cannot be used for a mother looking for work.

FEDERAL FUNDING ENCOURAGES STATE AUTOMATION, BUT NOT INNOVATION

Because of their complexity, costs, and large caseloads, welfare programs work much more efficiently when they employ sound technology. Recognizing this fact, the Congress has authorized federal funding participation, at rates ranging from 50 to 90 percent, to encourage and support state development and operation of automated information systems for major welfare programs, including AFDC, Child Support Enforcement, Child Care, Child Welfare/Poster Care, JOBS, Food Stamp, and Medicaid. Through fiscal year 1992, the federal contribution totaled more than \$8.6 billion.⁸ For fiscal years 1993 through 1999, the states estimate they will spend another \$10.7 billion to develop and operate such systems with the federal government paying over half of this cost.

Despite these sizable investments, the states cannot, with current program rules, use technology to its full advantage. Faced with barriers such as diverse and sometimes contradictory program requirements, separate funding provisions, statutory deadlines, and inadequate federal monitoring, states have developed essentially separate automated systems for each program. The difficulty in surmounting these barriers leaves states little opportunity or incentive for reexamining and, if necessary, reengineering their existing processes. As a result, manual processes are often electronically embedded in the automated systems, and the systems rarely automate processes or incorporate features that could substantially streamline the work of supporting the welfare system.

⁷Multiple Employment Training Programs: Overlap Among Programs
Raises Questions About Efficiency (GAO/HEHS-94-193, July 11, 1994).

⁸All historical and projected costs expressed in 1993 constant dollars.

Federal agencies are undertaking initiatives to help states develop more efficient and effective automated welfare systems. Examples of such actions include funding the consolidation of separate AFDC, Medicaid, and Food Stamp eligibility systems into integrated Family Assistance Management Information Systems and developing model systems for the Child Welfare and JOBS programs.

States such as Connecticut, Minnesota, Rhode Island, and Texas have focused on integrating their automated welfare systems and streamlining welfare program processes. For example, Connecticut has a project under way to provide an integrated set of services in one location. The system has increased caseworker productivity, decreased error rates as compared to those that occur with manual processing, improved fraud detection, and helped identify overpayment.

PROGRAMS ARE VULNERABLE TO
FRAUD, WASTE, AND ABUSE

In addition to the challenges involved in efficiently running the programs and delivering their services, these programs are inherently vulnerable to fraud, waste, and abuse. Given their size and structure, these programs are subject to billions of dollars in incorrect payments and services annually as a result of fraudulent eligibility and benefit claims, applicant errors, and processing errors. For example, in fiscal year 1993, nearly \$1.8 billion in overpayments was estimated to have been made in the Food Stamp program alone. The means-tested nature of these programs creates further program vulnerabilities. For example, the need to collect, review, maintain, and verify enormous amounts of documentation to ensure accurate and equitable decisions leaves these programs open to fraud and abuse.

In 1993, we reported that prescription drug diversion and other fraudulent billings had been an ongoing problem in the Medicaid program for at least the previous decade.⁹ We found that physicians, clinic owners, and pharmacists collude to defraud Medicaid by billing for services not rendered or needed and by prescribing and distributing drugs mainly to obtain reimbursement. Patients are often knowing participants in these schemes, allowing use of their Medicaid recipient numbers for billing purposes in exchange for cash, drugs, or other inducements.

In January 1994, California estimated that hundreds of millions of dollars were being wasted through fraud in its public assistance programs. In its AFDC program alone, about 4 percent of cases randomly selected for quality control review in 1992 and 1993 were estimated to involve fraud. Many regard this 4 percent as a

⁹Medicaid Drug Fraud: Federal Leadership Needed to Reduce Program Vulnerabilities (GAO/HRD-93-118, Aug. 2, 1993).

low estimate, because quality control reviewers did not have the information in their files necessary to identify all types of potential fraud.

Finally, in a 1994 study of fraud, waste, and abuse in the Food Stamp program,¹⁰ we reported four common problems that exist with the current coupon-based system: (1) overpayments that occur during the eligibility and benefit determination process, (2) illegal use of benefits after they are issued, (3) counterfeiting of food stamps, and (4) theft of coupons from the mail. As you know, there are various alternatives being proposed to replace the current system for delivering benefits.

LITTLE IS KNOWN ABOUT PROGRESS
MADE IN SOME PROGRAMS

In addition to the costs of and growth in these programs and problems with overlap and fragmentation, there is also increasing concern on how well the programs within the welfare system are serving recipients. There is also a fundamental concern about whether the programs are achieving their goals. For many programs, pertinent data are not being collected on how recipients fare. Also, as we have found in our prior work, many programs do not articulate specific and measurable policy goals that should be achieved.

To illustrate, in 1994, we reported that most federal agencies do not know whether their employment training programs are working effectively.¹¹ One of the largest of these programs--JOBS--is designed specifically to provide AFDC recipients with the help they need to avoid long-term dependence. Nearly \$8 billion in federal and state funds have been spent on this program since state and local governments began operating their programs in 1989. To date, the Department of Health and Human Services does not know whether JOBS participants are becoming self-sufficient because it does not gather enough information on critical program outcomes, such as the number of participants entering employment and leaving AFDC annually.

Similarly, in 1993, we reported that the United States Department of Agriculture's multiple food assistance programs have evolved separately over the past 46 years without the benefit of a

¹⁰Food Assistance: Potential Impacts of Alternative Systems for Delivering Food Stamp Program Benefits (GAO/RCED-95-13, Dec. 16, 1994).

¹¹Multiple Employment Training Programs: Most Federal Agencies Do Not Know If Their Programs Are Working Effectively (GAO/HEHS-94-88, Mar. 2, 1994).

comprehensive, overarching federal food assistance policy.¹² These programs operate under their own set of objectives that were created in response to an array of perceived needs. Most regional Food and Consumer Services and state agency officials whom we contacted were unable to describe how individual food assistance programs contributed toward the overall food assistance effort. Without a goal stated in objective, quantifiable, and measurable terms, assessing the overall impact of the food assistance effort in meeting the needs of the poor is difficult. It might be that a different combination of programs would more effectively serve the nutritional needs of clients.

SUMMARY

The nearly 80 means-tested programs that compose the welfare system accounted for about 15 percent of all federal spending in fiscal year 1992. The largest assistance programs, which are all entitlements--AFDC, Food Stamps, Medicaid, and SSI--accounted for 60 percent of all federal spending on low-income individuals and families in that year. Because the cash assistance programs (AFDC and SSI), Food Stamp program, and Medicaid are related entitlements, when there is caseload growth in AFDC or SSI, the Medicaid and Food Stamp caseloads also increase.

Our work has shown that these means-tested programs can be costly and difficult to administer. They sometimes overlap one another or are so narrowly focused that they create gaps in services that hinder clients. Further, we found that technology to run the programs is not being effectively developed and used and that many of these programs are inherently vulnerable to fraud, waste, and abuse. Finally, some of our work has shown that the system is often difficult for clients to navigate and that, despite many years of experience with these programs, very little is known about how well they are working.

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Mr. Chairman, this concludes my prepared statement. At this time, I will be happy to answer any questions you or other members of the Subcommittee may have.

For more information on this testimony, please call David P. Bixler, Assistant Director, at (202) 512-7201 or Gale C. Harris, Senior Evaluator, at (202) 512-7235.

¹²Food Assistance: USDA's Multiprogram Approach (GAO/RCED-94-33, Nov. 29, 1993).

APPENDIX I

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ESTIMATED EXPENDITURES FOR MEANS-TESTED PROGRAMS
FOR FISCAL YEAR 1992

This appendix shows federal, state, and total estimated expenditures and the number of people or households reached by means-tested programs. We have used the data reported in the Congressional Research Service's Cash and Noncash Benefits for Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1990-92, dated September 1993. The fiscal year 1992 data in the CRS report and this appendix represent the most recent data available for the complete set of means-tested programs identified. The dollar amounts included were based on expenditures where available; appropriated and obligated amounts were also used. For those programs that reached other than low-income individuals, CRS estimated the portion of expenditures used by those with limited incomes. In this appendix, programs are listed in descending order of federal expenditures. Except for sums below \$100 million, figures are rounded to the nearest million. Totals reflect rounding of smaller sums to the nearest million. "N.A." means not available.

Also note that the way the number of recipients was measured varied by spending category. For example, for income support, medical care, food and nutrition, and training programs, the average monthly number of recipients was generally used. For housing assistance, the number of families, dwelling units, or households during the year was used. In addition, for education and other services, the annual number of recipients was shown.

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ESTIMATED EXPENDITURES FOR MEANS-TESTED ASSISTANCE PROGRAMS
Fiscal Year 1992

Dollars in millions

Benefit category/program	Estimated expenditures			Estimated recipients (thousands)
	Federal	State	Total	
Income support				Average monthly recipients
Aid to Families with Dependent Children	\$13,569	\$11,354	\$24,923	13,754 ^a
Supplemental Security Income	18,744	4,030	22,774	5,559 ^b
Earned Income Tax Credit	9,553	0	9,553	39,909
Pensions for needy veterans, their dependents, and survivors	3,667	0	3,667	969
Foster Care	2,233	1,937	4,170	202
General assistance (nonmedical care component)	0	3,340	3,340	1,205
Adoption assistance	221	181	402	66.2
Assistance to refugees and Cuban/Haitian entrants (cash components)	139	0	139	31.3
Emergency assistance	134	134	268	158.7 ^c
Dependency and indemnity compensation and death compensation for parents of veterans	68	0	68	34.1
General assistance to Indians	45.9	0	45.9	41.1
Income support total	\$48,374	\$20,976	\$69,350	^d
Medical care				Average monthly recipients
Medicaid	67,827	50,240	118,067	30,776 ^b
Medical care for veterans without service-connected disability	7,838	N.A.	7,838	580 ^a
General assistance (medical care component)	0	4,850	4,850	N.A.
Indian Health Services	1,431	0	1,431	1,160 ^b

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Benefit category/program	Estimated expenditures			Estimated recipients (thousands)
	Federal	State	Total	
Maternal and Child Health Services Block Grant	\$646	\$413	\$1,059	N.A.
Community Health Centers	537	0	537	5,675 ^b
Title X Family Planning Services	150	N.A.	150	4,000 ^b
Migrant Health Centers	57.6	0	57.6	545 ^b
Medical assistance to refugees and Cuban/Haitian entrants	42.4	0	42.4	43.5
Medical care total	\$78,529	\$55,503	\$133,032	^a
Food and nutrition				Average monthly recipients
Food Stamps	23,540	1,378	24,918	26,900
School Lunch Program (free and reduced-price segments)	3,895	N.A.	3,895	13,000
Special Supplemental Food Program for Women, Infants, and Children	2,600	N.A.	2,600	5,400
School Breakfast Program (free and reduced price segments)	782	N.A.	782	4,500
Child and Adult Care Food Program	624	N.A.	624	1,019
Nutrition Program for the Elderly (no income test, but preferences for those with greatest economic or social needs)	591	68.1	659.1	3,349 ^b
The Emergency Food Assistance Program	250	N.A.	250	7,500 ^c
Summer Food Service Program for Children	203	N.A.	203	1,919
Commodity Supplemental Food Program	90	N.A.	90	343
Food Distribution Program on Indian Reservations	84	N.A.	84	119
Special Milk Program (free segment)	1.7	N.A.	1.7	60
Food and nutrition total	\$32,661	\$1,446	\$34,107	^a

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Benefit category/program	Estimated expenditures			Estimated recipients (thousands)
	Federal	State	Total	
Housing				Families or units during the year
Section 8 Low-Income Housing Assistance	\$12,307	\$0	\$12,307	2,797 ^f
Low-Rent Public Housing	5,008	N.A.	5,008	1,409 ^f
Low-Income Home Energy Assistance	1,500	94	1,594	6,200
Rural Housing Loans	1,468	0	1,468	25.7
Section 236 Interest Reduction Payments	652	0	652	510.6 ^f
Rural Rental Housing Loans	573	0	573	15
Rural Rental Assistance	320	0	320	29.4 ^f
Weatherization Assistance	174	N.A.	174	87
Section 101 Rent Supplements	54	0	54	20 ^f
Section 235 Homeownership Assistance	45	0	45	98 ^f
Farm Labor Housing Loans and Grants	28.7	0	28.7	0.6
Rural Housing Repair Loans and Grants	24.1	0	24.1	5.3 ^a
Rural Housing Preservation Grants	23	0	23	4.0
Indian Housing Improvement Grants	20.1	0	20.1	1.2 ^f
Rural Self-Help Technical Assistance Grants and Site Loans	9	0	9	50 ^f
Home Investment Partnerships	2.7	--	2.7	182
Housing total	\$22,209	\$94	\$22,303	^d

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Benefit category/program	Estimated expenditures			Estimated recipients (thousands)
	Federal	State	Total	
Education and training				Number of recipients¹³
Stafford Loans	\$ 5,683	\$ 0	\$5,683	5,135
Pell Grants	5,374	0	5,374	4,259
Head Start	2,202	551	2,753	621
College Work-Study Program	595	0	595	827
Supplemental Educational Opportunity Grants	520	0	520	835
Federal TRIO Programs	385	0	385	649
Chapter 1 Migrant Education Program	308	N.A.	308	417
Perkins Loans	156	0	156	688
State Student Incentive Grant Programs	63.5	63.5	127	213
Fellowships for Graduate and Professional Study	62.8	0	62.8	5.8
Health Professions Student Loans and Scholarships	48.3	0	48.3	33.9
Follow Through	8.6	N.A.	8.6	N.A.
Migrant High School Equivalency Program	8.3	N.A.	8.3	3.5
Eilender Fellowships	4.3	0	4.3	6.3
College Assistance Migrant Program	2.3	0	2.3	0.4
Child Development Associate Scholarships	1.4	0	1.4	5
Education subtotal	\$15,423	\$614	\$16,037	^a
Training for Disadvantaged Adults and Youth	1,774	0	1,774	602.3
Summer Youth Employment and Training Program	1,183	0	1,183	783

¹³For educational programs--annual number of recipients. For training programs--average monthly number of recipients.

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Benefit category/program	Estimated expenditures			Estimated recipients (thousands)
	Federal	State	Total	
Job Corps	\$955	\$0	\$955	64.9
Job Opportunities and Basic Skills Training Program	623	387	1,010	510
Senior Community Service Employment Program	395	43.9	438.9	65.2
Foster Grandparents	65.6	29	94.6	23.4
Senior Companions	28.7	16.1	44.8	11.9
Training subtotal	5,024	476	5,500	^a
Education and training total	\$20,447	\$1,090	\$21,537	^a
Services				Annual number of recipients
Social Services Block Grant (Title XX)	2,800	2,619	5,419	N/A
Child Care and Development Block Grant	825	0	825	570 ^a
AFDC and Transitional Child Care	438	317	755	265 ^a
"At Risk" Child Care (to avert AFDC eligibility)	335	269	604	N.A.
Community Services Block Grant	438	0	438	N.A.
Legal Services	350	0	350	N.A.
Emergency Food and Shelter program	134	N.A.	134	N.A.
Social Services for Refugees and Cuban/Haitian Entrants	25.8	0	25.8	339.8
Services total	\$5,346	\$3,205	\$8,551	^a
Grand total	\$207,566	\$82,314	\$288,880	^a

Notes:

^aChildren and/or parents.^bAnnual number.^cFamilies or households.^dBecause of overlap, and in some cases because of mixture of monthly and annual numbers and mixture of dwelling units, loans, grants, children, families, and households, recipient totals are not shown.^eAnnual number of episodes.^fUnits.^gLoans and grants.

Source: Cash and Noncash Benefits for Persons With Limited Income: Eligibility Rules, Recipient and Expenditure Data, FY 1990-92 (EPW-93-832), Congressional Research Service, Library of Congress, September 15, 1993.

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Food Stamp Program Provisions (GAO/RCED-93-70R, Nov. 25, 1992).

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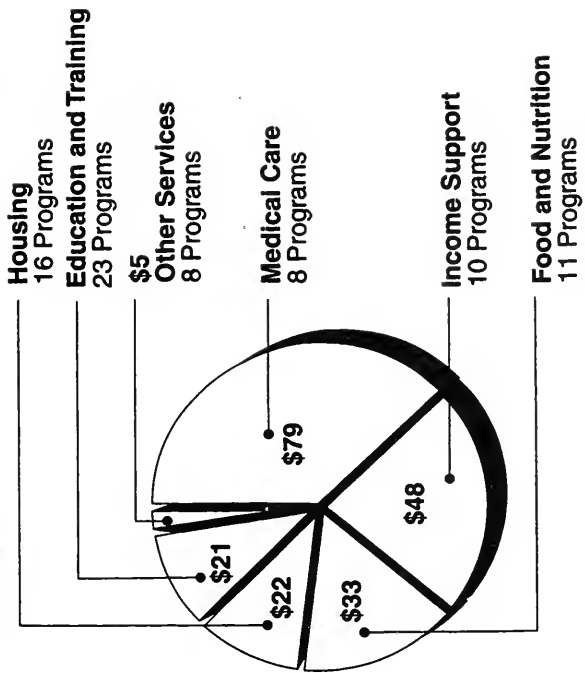
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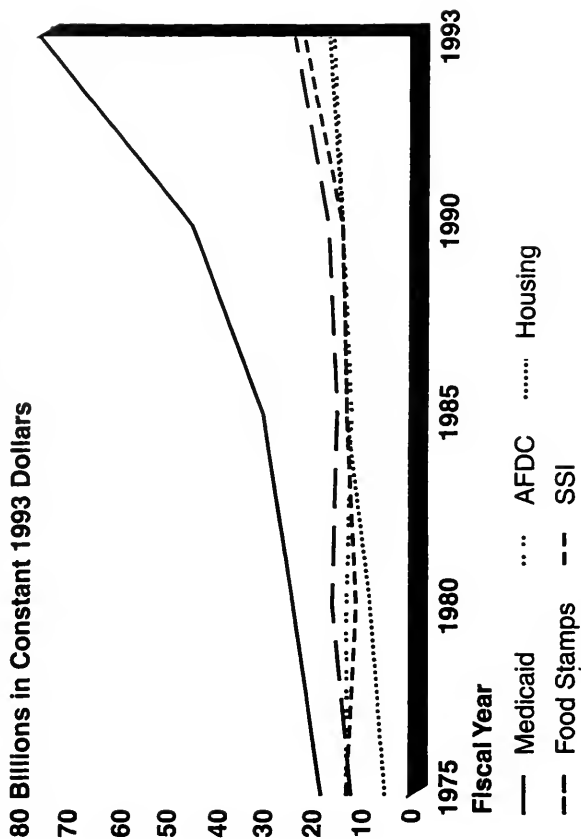
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GAO Federal Assistance to Low-Income Individuals by Function (FY 1992)

In Billions



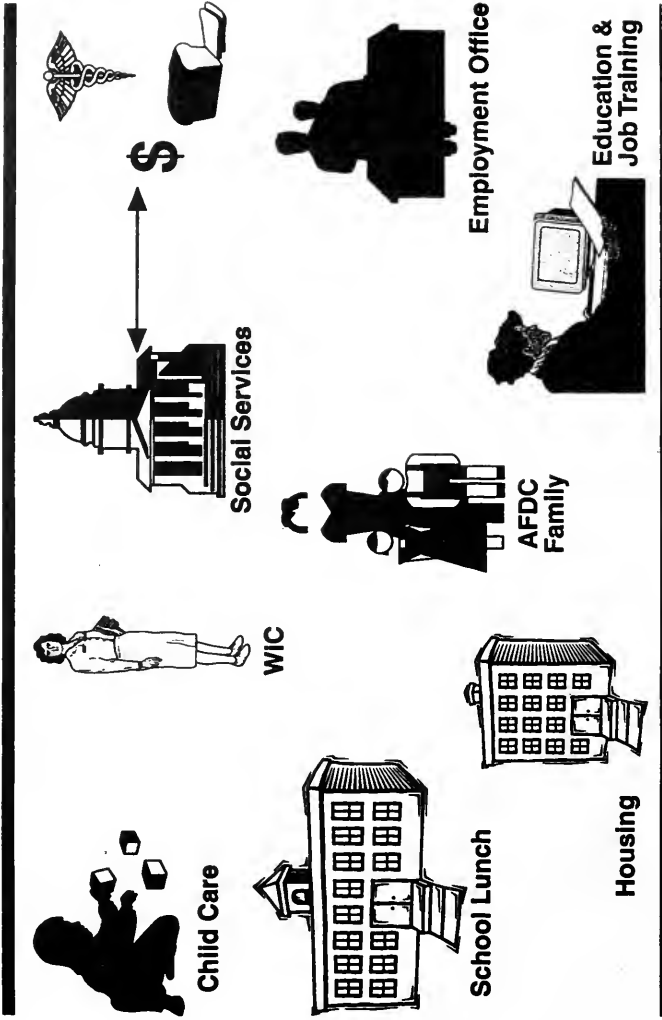
GAO Federal Expenditures for Major Means-Tested Programs



GAO AFDC Families Program Eligibility

	Programs	Generally Eligible and Entitled to Benefits	Generally Eligible, But Availability of Benefits Limited	Eligibility and Availability of Benefits Limited	Generally Not Eligible
Income Support	AFDC	•			•
	SSI			•	
	Earned Income Tax Credit			•	
	Payments for Needy Veterans			•	•
	Foster Care			•	•
	Adoption Assistance			•	•
	Assistance to Refugees and Cuban/Haitian Entrants			•	•
	Emergency Assistance			•	•
	Selected Compensation for Veterans			•	•
	General Assistance to Indians			•	•
Medical Care	Medicaid	•		•	
	Medical Care for Certain Veterans			•	
	Indian Health Services			•	
	Maternal and Child Health Services Block Grant		•	•	
	Community Health Centers		•	•	
	Title X Family Planning Services		•	•	
Food & Nutrition	Migrant Health Centers			•	•
	Medical Assistance to Refugees			•	•
	Food Stamps	•		•	
	School Lunch Program		•	•	
	Special Supplemental Food Program		•	•	
	School Breakfast Program		•	•	
	Child and Adult Care Food Program		•	•	
	Nutrition Program for the Elderly		•	•	
	Emergency Food Assistance Program		•	•	
	Summer Food Service Program for Children		•	•	
Housing	Commodity Supplemental Food Program		•	•	
	Food Distribution on Indian Reservations		•	•	
	Special Milk Program		•	•	
	Section 8 Low-Income Housing Assistance		•	•	
	Low-Rent Public Housing		•	•	
	Rural Housing Loans		•	•	
	Section 236 Interest Reduction Payments		•	•	
	Low-Income Home Energy Assistance		•	•	
	Rural Rental Housing Loans		•	•	
	Rural Rental Assistance		•	•	
Education and Training	Section 101 Rent Supplements		•	•	
	Section 235 Homeownership		•	•	
	Farm Labor Housing Loans and Grants		•	•	
	Rural Housing Repair Loans and Grants		•	•	
	Rural Housing Preservation Grants		•	•	
	Indian Housing Improvement Grants		•	•	
	Rural Self-Help Technical Assistance		•	•	
	Home Investment Partnerships		•	•	
	Homeownership and Opportunity for People		•	•	
	Education			•	
Other Services	Stafford Loans			•	
	Pell Grants			•	
	Head Start			•	
	College Work-Study Programs			•	
	Supplemental Educational Opportunity Grants			•	
	Federal TRIO Programs			•	
	Chapter 1 Migrant Education Program			•	
	Perkins Loans			•	
	State Student Incentive Grant Programs			•	
	Fellowships for Graduate Study			•	
Other Services	Health Professions Student Loans			•	
	Fulbright Fellowships			•	
	College Assistance Migrant Program			•	
	Child Development Associate Scholarships			•	
	Training			•	
	Training for Disadvantaged Adults and Youth			•	
	Summer Youth Employment and Training			•	
	Job Corps			•	
	Job Opportunities and Basic Skills			•	
	Senior Community Service Employment			•	
Other Services	Foster Grandparents			•	
	Senior Companions			•	
	Social Services Block Grant			•	
	Child Care and Development Block Grant			•	
	AFDC Child Care			•	
	At-Risk Child Care			•	
	Community Services Block Grants		•	•	
	Legal Services		•	•	
	Emergency Food and Shelter Program			•	
	Social Services for Refugees			•	

GAO Multiple Program Participation



United States General Accounting Office

GAO

Testimony

Before the Committee on Governmental Affairs
United States Senate

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GOVERNMENT REFORM

Using Reengineering and Technology to Improve Government Performance

Statement of Charles A. Bowsher
Comptroller General of the United States



Mr. Chairman and Members of the Committee:

Enormous budget pressures and widespread dissatisfaction with the government's performance have heightened the urgency to reform and modernize the operations of federal agencies. However, agencies are encountering tremendous problems in attempting to take advantage of information technology to improve government and cut costs. Meanwhile, the American people are becoming increasingly frustrated with business as usual; they want a smaller, more responsive government that can live within its means and better ensure accountability for achieving real results.

Reengineering and modern technology offer huge opportunities to reduce federal costs while also improving the quality of government services. Unfortunately, the federal sector lags far behind leading organizations that have used process improvement and information technology to cut costs, streamline operations, and enhance service levels. After having spent over \$200 billion on information systems over the past 12 years, our national government is in the worst possible situation--having invested heavily in costly information system projects that often fail to produce dramatic service improvements or significant reductions in personnel and administrative costs.

Moreover, the Congress and federal managers remain information poor, severely lacking in reliable data to measure the costs and results of agency operations. The

federal government is still a long way from achieving the most basic financial accountability to the public--largely due to inadequate information systems. This has been a serious obstacle preventing major departments and agencies from passing the test of an independent audit.

Mr. Chairman, I know you and other members of this Committee are deeply concerned about solving these persistent problems. The legislation supported by this Committee has laid a solid foundation for reforming federal management practices. This includes the Chief Financial Officers Act (CFO) of 1990, the Government Performance and Results Act (GPRA) of 1993, and the Federal Acquisition Streamlining Act (FASA) and Government Management Reform Act (GMRA) of 1994. The Committee's current work to enhance the Paperwork Reduction Act (PRA) also will help instill modern management practices throughout government.

Successful implementation of all these legislative initiatives, however, hinges greatly on bringing our national government into the information technology age. Federal agencies must close the large and widening gap between the public's expectations for efficient, modern service and the government's performance--a gap that is undermining the effectiveness and credibility of our government institutions. More and more, the American people are enjoying the everyday benefits of technology-driven service improvements in the private sector, such as 24-hour one-stop customer service

numbers, automated bank tellers, overnight package delivery, and point-of-sale or telephone credit card payment.

Americans are perplexed by their government's seeming inability to achieve similar improvements. Significant federal innovations to improve public convenience have simply been too few and far between. And when innovations are attempted, a dearth of skills and knowledge, along with entrenched bureaucracies, often conspire to produce failure or significantly degrade projected benefits.

I strongly believe we must move to a smaller, more efficient government; one that stresses accountability and managing for results. But this will require reengineering federal operations and supporting them with modern information technology. As in successful private sector reengineering efforts, ambitious improvement goals and targets need to be set for the government to focus attention and mobilize resources for achieving change.

The experiences of leading organizations also have demonstrated that information technology must be used wisely in conjunction with redesigning business processes that agencies use to carry out their responsibilities and interact with the public. Furthermore, today's technology demands a highly skilled workforce with strong incentives to continually adapt and improve over time. If these essential elements

become more commonplace, major improvements are definitely attainable in strengthening accountability, reducing costs, and enhancing service to the public.

Mr. Chairman, today I will focus on

- the critical risks in how the government is mismanaging its \$25 billion annual investment in information technology,
- management practices used by leading organizations to reduce the risks of bad investments and increase the chances of successfully exploiting technology opportunities, and
- actions that executive agencies and the Congress can take now to bring about the type of government that we would all like to see--one that is smaller, works better, and costs less.

CRITICAL RISKS IN FEDERAL INFORMATION TECHNOLOGY INVESTMENTS

Our reports have consistently concluded that despite huge expenditures, federal agencies continue to lack critical information needed to properly manage their funds

and effectively meet mission goals.¹ As a result, two kinds of risks permeate government: (1) deteriorating program performance and unnecessary costs due to the failure to redesign outmoded operations and effectively employ information technology and (2) poor accountability, waste, and fraud due to inadequate financial systems.

There is growing consensus that poor technology investments are an extremely serious problem:

- The General Services Administration (GSA), in an effort intended to highlight the problem of failed technology investments, announced recently that it has suspended procurement authority for \$6.8 billion of new information systems and put another \$7 billion on its "watch list."
- This Committee, in its report last session on the Paperwork Reduction Act, noted that the government's huge technology investment is "seriously compromised by inadequate and irresponsible systems planning, design, acquisition, and management."
- Senator Cohen, of the Government Management Subcommittee, released a

¹ A listing of our major reports on this topic is contained in appendix I.

report last year entitled "Computer Chaos" detailing dozens of examples of failed information technology efforts, underscoring how the government uses old, obsolete computer systems while wasting millions of dollars in failed modernization efforts.

- Many areas on the President's High-Risk List involve weaknesses in financial management or information systems. More recently, the Office of Management and Budget's (OMB) Circular A-130 on information resources management noted the dangers of developing information systems that merely improve the efficiency of paper-based processes that may no longer be needed.
- The administration's National Performance Review noted that, when it comes to information management, "the federal government is woefully behind the times, unable to use even the most basic technology to conduct its business."

Let me now outline how management problems are preventing the government from improving program performance and instilling financial accountability.

Risks to Effective Program, Performance, and Cost Reduction Strategies

While well-intentioned and expensive computer modernizations are underway across

government, we often find these complex undertakings are at great risk due to the failure to (1) adequately select, plan, and control system and software development projects, and (2) use technology to simplify and reengineer processes in ways that reduce costs, increase productivity, and improve service. In fact, due to our growing concern about this issue, we are adding a new category in our own list of high-risk areas that we monitor: major information systems modernization efforts.

Examples of poor information systems management have plagued efforts to improve some of the government's most critical activities, such as air traffic control and tax processing.

- After investing over 12 years and more than \$2.5 billion, the Federal Aviation Administration (FAA) chose to cut its losses in its problem-plagued \$6-billion Advanced Automation System (AAS) by either cancelling or extensively restructuring elements of this effort to modernize our nation's air traffic control system. For example, a piece of AAS expected to cost about \$1 billion and intended to control aircraft in the lower altitudes around busy airports was cancelled after spending \$250 million and was replaced by another \$1-billion system development effort. The reasons for AAS' problems include FAA's failure to (1) accurately estimate the technical complexity and resource requirements of the effort, (2) stabilize system requirements, and (3) adequately

oversee contractor activities.

- Through fiscal year 1995, the Internal Revenue Service (IRS) will have spent over \$2.5 billion on its \$8-billion Tax System Modernization (TSM) initiative to automate selected tax processing functions. Yet, as we reported in 1994, the overall design of TSM remains incomplete, and IRS is continuing to automate existing functions with limited demonstration of how or whether the pieces of the system will eventually fit together to improve tax processing overall. Given such concerns and budget constraints, the Congress reduced IRS' fiscal year 1995 budget request by \$339 million, and IRS has agreed to put the needed business and technical foundation in place to better achieve TSM's objectives.

The tremendous potential of reengineering business functions prior to automating is also not being fully tapped, unlike successful private sector efforts. For the government to reduce costs, increase service, and raise productivity, new information systems should not be developed simply to automate existing inefficient or ineffective processes. This has been a hard lesson for federal agencies to learn, as the following cases vividly illustrate.

- In 1993, the Department of Agriculture (USDA) embarked on a \$2.6 billion project, called Info Share, designed to improve operations and provide better

service to farmers, such as supporting the establishment of one-stop Field Office Service Centers. However, we found in 1994 that USDA was managing Info Share primarily as a vehicle to acquire new information technology, rather than as an opportunity to fundamentally improve business processes. Key steps in process reengineering were not being followed. For example, senior USDA officials were not involved in managing Info Share and integrating it into the Department's structural reorganization efforts--a key accountability shortcoming. Nor did USDA adequately analyze its current business processes and establish improvement goals. Based on our review, GSA withdrew its \$2.6-billion procurement authority delegation for Info Share, and USDA has agreed to refocus the program on improving business processes.

- The Veterans Benefits Administration (VBA) embarked on a modernization effort to speed up the processing of veterans' compensation claims. This effort involves procuring up to \$680 million in computer and communications equipment and associated commercial software products. However, VBA did not set new performance goals and redesign its processes before acquiring this equipment and software. In our 1992 review, we determined that without any business process reengineering, this substantial technology investment would potentially eliminate only 6 to 12 days from the average of 151 days it took VBA to process an original compensation claim. In 1993, VBA and OMB

entered into an agreement to redirect the modernization program to obtain better gains in service delivery and cost reduction.

- In 1989, the Department of Defense (DOD) began its Corporate Information Management (CIM) initiative to streamline its operations. Defense originally estimated that CIM could save \$36 billion over 6 years. To date, however, CIM has achieved no demonstrable savings, largely because it has not focused on making fundamental improvements in major DOD business processes that span across functions. Instead, Defense has focused on trying to pick the best of its hundreds of existing automated systems and standardizing their use across the military components without thoroughly analyzing the technical, cost, and performance risks of this approach. As a result, Defense may lock itself into automated ways of doing business that do not serve its goals for the future and cannot provide promised benefits and cost savings.

Risks to Sound Financial Accountability

As we have testified on numerous occasions before this Committee, widespread weaknesses in financial systems are crippling our government's ability to monitor and manage its \$1.3 trillion in annual revenue, \$1.5 trillion in net outlays, and over a trillion dollars of assets. For example, due to poor financial records and systems, we

were unable to express financial audit opinions for five major agencies--IRS, U.S. Customs Service, Army, Air Force, and Education's Federal Family Education Loan Program. These agencies collect and account for virtually all of the government's revenues and a substantial portion of its outlays.

The shortcomings of poor financial accountability are alarming. Our audits have identified hundreds of billions of dollars in accounting mistakes and omissions that render information provided to managers and the Congress virtually useless. More often than not, the information needed to measure agency performance and costs is either unavailable or unreliable. The deficiencies at two major federal agencies, DOD and IRS, vividly illustrate these problems.

While public confidence in our country's superior military capabilities is deserved, the same cannot be said of DOD's ability to accurately account for and manage its annual budget of over \$250 billion and over \$1 trillion in assets worldwide. No military service or major component of DOD has been able to obtain an audit opinion because (1) financial reports were not reliable despite hundreds of billions of dollars in audit adjustments, (2) billions of dollars of assets had not been properly accounted for, and (3) countless problems were found in performing basic bookkeeping tasks. For example, DOD disbursed \$25 billion to vendors that cannot be properly matched to the necessary supporting documentation to determine whether the payments were proper.

DOD's inability to adequately correct well-known areas of waste and vulnerability also is draining precious resources and undermining efforts to further enhance military training and readiness. For example, (1) the Army paid approximately \$8 million of payroll to unauthorized individuals, including "ghost" soldiers and deserters, (2) the Navy paid an estimated \$3 million to a former Navy supply officer for 108 false invoice claims, and (3) DOD relies on contractors to voluntarily return hundreds of millions of dollars that primarily result from overpayments--in one 6-month period in fiscal year (FY) 1993 contractors returned \$751 million and in FY 1994 they returned \$957 million.

Similarly, IRS has not kept its own books and records with the same degree of accuracy that it expects of taxpayers. For the last 2 years, we have been unable to express an opinion on IRS' financial statements due to serious accounting and internal control weaknesses. For example, as of September 30, 1993, IRS (1) did not have reliable data to help collect an estimated \$29 billion of collectible accounts receivable, and (2) had not posted over \$90 billion in transactions to the taxpayer account balances supporting reported amounts or properly included over \$58 billion in credit balances in its financial reports.

Recent expansion of the CFO Act provides a good basis for addressing financial accountability problems. However, there is still a long way to go, particularly in the

area of developing integrated, automated systems. As I will discuss later, this area provides an excellent opportunity for reengineering. Without concerted efforts to implement modern financial management systems, the Congress is at great risk of not being fully informed as it attempts to exploit cost and public service improvement opportunities and hold agencies accountable for achieving results.

CLOSING THE GOVERNMENT'S PERFORMANCE GAP: LEARNING FROM LEADING ORGANIZATIONS

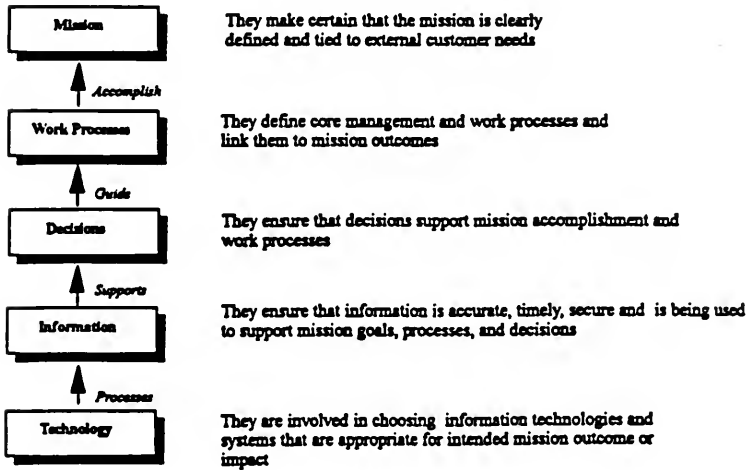
To help federal agencies achieve their potential for improvement, GAO studied a number of successful private and public sector organizations to learn how they reached their own ambitious improvement goals. In our resulting report,² we describe a strategic, integrated set of fundamental management practices that were instrumental in these organizations' success. These practices can be readily adopted by federal agencies.

The most critical factor for success was the leadership and personal commitment of top executives to improve strategic information management. Successful leaders

²Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

approached information management issues in a seamless fashion: they recognized that technology is integral to providing the information for effective decisionmaking and supporting the work processes that accomplish the organization's mission. Figure 1 below summarizes this critical interrelationship.

Figure 1: Integration of Strategic Management Issues



Top executives understood the value of information and information technology. They

actively spent the time to manage down risks and maximize the return on scarce investment funds. These leaders managed through three fundamental areas of practice.

- *First, they decided to work differently* by quantitatively assessing performance against the best in the world and recognizing that program managers and stakeholders need to be held accountable for using information technology well. In contrast, the federal government frequently fails to benchmark itself against the best, delegates information issues to technical staff, and sustains rates of management turnover that seriously hinder true ownership and accountability.
- *Second, they directed scarce technology resources toward high-value uses* by reengineering critical functions and carefully controlling and evaluating the results of information systems spending through specific performance and cost measures. Federal agencies, on the other hand, often buy hardware before they evaluate their business functions, lack discipline and accountability for their investments, and fail to rigorously monitor the results produced.
- *Third, they supported major cost reduction and service improvement efforts* with the up-to-date professional skills and organizational roles and responsibilities required to do the job. The federal government all too often is held back by an antiquated skill base and confused roles and responsibilities that consistently

inhibit the effectiveness of major system development and modernization efforts.

Figure 2 below provides additional detail on the specific practices within these fundamental management areas.

Figure 2: Key Management Areas and Fundamental Practices

Decide to Change	Direct Change	Support Change
1 Recognize and communicate the urgency to change information management practices	4 Anchor strategic planning in customer needs and mission goals	9 Establish customer/supplier relationships between line and information management professionals
2 Get line management involved and create ownership	5 Measure the performance of key mission delivery processes	10 Position a Chief Information Officer as a senior management partner
3 Take action and maintain momentum	6 Focus on process improvement in the context of an architecture	11 Upgrade skills and knowledge of line and information management professionals
	7 Manage information systems projects as investments	
	8 Integrate the planning, budgeting, and evaluation processes	

It is important to recognize that these 11 practices form an integrated set. It is not enough for agencies to advance in only one or two management areas. The leading organizations were able to transform their operations because they implemented the full range of strategic information management practices needed to initiate, direct, and support change. Unless federal decisionmakers engage in concerted efforts to learn

and apply these practices, there is little hope of bringing the federal government into the 21st century at a level of excellence comparable to other leading American organizations.

ACTIONS FOR ACHIEVING REAL IMPROVEMENT IN COST AND PERFORMANCE

Achieving true "order of magnitude" improvements will be a formidable undertaking, requiring constancy of purpose and the resolve to make tough decisions. Many cultural barriers need to be overcome, and near-term investments may be necessary to gain continuing, long-term cost reductions. The time frames for achieving substantive results may span years, as private sector experience has shown in even the best cases.

The Importance of Goals

Setting improvement goals is an important step in getting the government to engage seriously in the difficult task of change. Leading organizations understand the value of setting aggressive goals to break through institutional complacency and stimulate the redesign of long-established business practices. Targets that call for an "order of magnitude" improvement provide agencies with a powerful incentive to clarify their strategic goals, design work processes that best support those goals, and create a

streamlined organizational structure staffed by a skilled and responsive workforce.

Goals should be based on a careful, fact-based analysis of the organization's performance and its environment. They should be driven by customer and stakeholder needs, and stated in measurable terms of cost, quality, and time. Benchmarking against world-class organizations is important in setting specific targets that are both aggressive and attainable.

Leading organizations recognize that goal-setting is a dynamic process. They reexamine targets as needed without allowing refinements to become an excuse for evading the task of improvement. Goals and the goal-setting process are taken seriously, and top managers are held accountable for setting the right targets--and meeting them.

Fortunately, the federal government already has a legislative mechanism for establishing and managing toward goals that are necessary for fundamental improvements in program and service delivery. The landmark GPRA legislation, enacted under the leadership of this Committee, is intended to provide a greater focus on the results of federal programs. GPRA requires agencies to establish a strategic direction, systematically measure their performance, and publicly report on progress in meeting their goals. The central features of GPRA--strategic planning, performance

measurement, and public reporting and accountability--can serve as powerful tools for changing the basic culture of government.

Improving the Federal Workforce

The capabilities of people play an important role in achieving the highest levels of performance improvement and cost savings. The federal government continues to pay the price for not having an adequate cadre of professionals in the information management and financial management areas who can help make change happen and improve the accountability of agencies. The private sector has painfully learned that reengineering and streamlining projects can easily be delayed, or fail, if personnel issues are not addressed. In particular, three issues need to be directly confronted:

- the uses of information technology in the workplace are becoming more complex, requiring higher levels of technical sophistication from the workforce,
- rapid technological changes lead to continually evolving opportunities to improve business processes, and
- reengineering business processes necessarily changes the status quo, altering employees' roles, responsibilities and skill needs, and changing or eliminating jobs.

To address these three issues, the federal government needs to attract and retain qualified people, especially in the areas of financial and information management. We need a core set of experienced, professional staff and managers who can take full advantage of opportunities for working with the private sector through outsourcing and partnerships to improve federal information management. In addition, the government needs to develop a human resources system that gives federal workers the incentives, training, and support to help them continually learn and adapt. Mr. Chairman, we strongly endorse your civil service reform goal of developing a highly skilled, educated, and trained workforce that is held accountable for what they do and are more responsive to taxpayers' needs.

Information Management Initiatives for Federal Agencies

Little can be achieved in streamlining processes unless agency leaders take the initiative to institutionalize sound strategic information management practices. We have found that many agencies need and want help to close the cost and performance gap with the leading organizations. Over 14,000 copies of our report on best practices of leading organizations have been requested, and we have given 120 briefings to over 2,000 federal decisionmakers to explain our work.

The following steps are needed to get these practices implemented, not just talked about.

- Agencies should benchmark their current information management practices against the practices of successful, leading organizations to (1) understand where they are deficient and (2) develop an action plan for putting the leading practices in place. We have developed a methodology for agencies to use in doing self-assessments and are working with several agencies, such as the Department of Housing and Urban Development and IRS, to help them do this.

- Agencies' top executives must assert control over technology investment decisions and ensure that improvement efforts are well-managed and directed toward achieving maximum value in improving operations. The vital area of information technology expenditure warrants a new level of scrutiny--governmentwide--to determine just where risks are highest and how they then can be managed more effectively. To this end, we are working with both OMB and GSA to infuse more discipline and accountability into the government's decisions regarding information technology expenditures. For example, OMB, with our assistance, is developing a guide to help its budget examiners rigorously evaluate technology investments.

-- Agencies should be held accountable for understanding what their key information assets are and for protecting their value. This refers not merely to physical systems hardware and software, but to data assets as well. In addition, program managers themselves need to be held accountable for managing the information resources that support their programs.

Information Management Initiatives for the Congress

This Committee has played an important role in building consensus on the need for adopting proven practices for effective strategic information management. We appreciate the letter that you, Mr. Chairman, and Senator Glenn sent to the heads of agencies endorsing the management practices outlined in our study of leading organizations. This stimulated great interest and support for our findings. For example, OMB has incorporated the essence of these practices into its revision of A-130--the basic policy circular for federal information resources management.

This Committee can take additional actions to strengthen the legislative foundation that it has been building so carefully. Presently, the Paperwork Reduction Act provides the primary legislative framework for managing information technology. In the 14 years since its passage, rapid changes in information technology have occurred--changes that now demand new approaches. We encourage the Committee's efforts to

refine the act and to develop other legislation to improve accountability for information technology investments and results. Such legislation at a minimum should:

- require agencies to implement sound strategic information management practices, such as making sure that investments are driven by effective business plans aimed at reengineering outmoded processes and that controls over the investments are in place,
- emphasize that information management is an integral part of the government's overall management responsibility and ensure that senior managers are responsible and accountable for maximizing the net benefits and appropriately managing the risks associated with major information systems initiatives,
- establish a chief information officer (CIO) within each agency to work with the agency's senior management to (1) define and implement effective strategic management practices that integrate information technology decisions with budget, financial, and program management decisions and (2) support program officials and the chief financial officer in defining information needs and developing strategies to meet those needs,
- establish a CIO within OMB who can guide the development of

governmentwide plans and identify effective ways to better support information management within agencies, and

- establish measures and accountability for achieving results from information technology investments.

These would all be positive steps. But given the scope of the government's performance problems and the rapid evolution of technology, broader legislative reforms may be needed. We are working with this Committee and Senator Cohen's Subcommittee in defining major potential areas of reform and alternatives for congressional action.

Opportunities to Improve Government Operations

The Committee can also keep the momentum for improvement going by focusing on specific areas where agencies can use reengineering and technology to improve service delivery and reduce costs. Current efforts at IRS, Defense, Agriculture, SSA, and VBA all have tremendous potential if properly designed and managed. In addition, it is important to consider opportunities to streamline across individual agencies by standardizing and consolidating functions, such as financial management, logistics, payroll, and data center services, where the private sector has found a rich harvest of

improvement opportunities, especially among larger organizations. Let me point to a few candidates that illustrate this vast potential.

Increasing Efficiency and Responsiveness of Disability Claims Processes

Over the next few decades, SSA will face unprecedented growth in the number of beneficiaries, placing its current work processes under increasing stress. Between 1990 and 2005, the number of persons 65 and over will increase by 4.8 million and the number of disability insurance beneficiaries is expected to more than double to over 8.7 million.

SSA's ability to serve this increasing customer base will depend greatly on its ability to improve the efficiency and effectiveness of its work processes. For example, SSA's disability determination process is highly inefficient and paper-driven. A disability claim can pass through as many as 26 people to reach an initial disability decision. SSA reports that the average claimant waits up to 155 days from first contact with SSA for an initial decision, although only about 13 hours are spent actually working on a claim. The remainder of the time is associated with waiting for medical evidence, handing off the case to the next step in the process, and waiting between steps.

To SSA's credit, it has recognized the need to improve service and has initiated an

effort to reengineer its disability determination process to reduce the average waiting time to approximately 60 days. SSA's effort to reengineer its business processes is an effort we have encouraged and supported. However, as we reported in 1994, SSA's previously planned \$1.125 billion acquisition of 64,000 intelligent workstations and 2,200 local area networks needs to be refocused to support reengineered operations; it cannot continue to be directed at SSA's current, inefficient work processes. Also a business plan is needed that addresses the resources necessary to adequately handle current and future workloads.

Unfortunately, the inefficiencies inherent in disability determination processes are not unique to SSA. The Veterans Benefits Administration faces a similar challenge. In 1992, a veteran had to wait more than a third of a year for an original compensation claim to be processed, while only about 5 hours were actually spent working on the claim. Most of the remaining time involved the claim waiting in queue between the steps in the process.

The claims processing functions, such as those at SSA and VBA, represent ideal candidates for reengineering with modern information technology. The gains in service to the public and reduced government costs could be enormous, provided that the effort is properly designed, implemented, and managed. Similarly, other agencies across the government have similar improvement opportunities in functions, such as processing

and reviewing loans.

Reducing the Cost of Inventory Management

For more than a decade, leading businesses have been streamlining inventory processes and stocks on hand to reduce overhead, increase responsiveness, and cut unnecessary carrying costs. The federal government, however, has only begun to take advantage of this opportunity. For example, DOD has spent billions of dollars on excess supplies, burdened itself with the need to maintain them, and failed to acquire the tools or expertise needed to manage them effectively. In September 1993, DOD reported that although it had an inventory of \$77.5 billion, about \$36.3 billion, or about 47 percent, of the inventory represented items not needed to be on hand to support current operating requirements.

DOD generally agrees that it could lower costs and reduce inventories by using commercial practices. For example, DOD stores duplicate inventories of construction, general, and industrial supplies at wholesale and retail locations. In contrast, private sector companies encourage direct delivery of supplies to industrial centers by locating suppliers at "supplier parks" near the centers, and by streamlining the ordering, bill paying, and distribution processes through the use of electronic data interchange systems. The Defense Logistics Agency (DLA) is currently implementing some

commercial practices. For example, DLA has implemented a prime vendor program for medical supplies which has reduced overall wholesale inventories by \$400 million and is achieving cost reductions to military hospitals nationwide.

Improving Accountability Through Effective Financial Management Systems

The antiquated, inefficient financial systems of the federal government are excellent candidates for reengineering through information technology. For example, according to OMB, 34 percent of agency financial management systems are over 10 years old, 54 percent fail to meet agencies' processing requirements, and 51 percent do not meet internal reporting requirements. The private and public sector have achieved significant cost reductions and improved service through financial management systems redesign efforts. For example:

- Electronic Data Services Corp. (EDS) changed its accounts payable process from a paper-burdened process requiring a series of reviews between the field and central offices to a paperless central on-line computer system, resulting in a 50-percent reduction in staff and a 75-percent reduction in costs.
- Minnesota's Department of Revenue reported redesigning its sales tax system to achieve (1) faster resolution of delinquent filings and payments, which resulted

in \$4.3 million in increased receivable collections, (2) \$50 million in taxes received through increased compliance, and (3) over \$900,000 in reduced operating costs.

Other Potential Opportunities for Cost Reduction and Service Improvement

The administration's National Performance Review (NPR), which builds on many past efforts to target areas for improvement, identified numerous opportunities for federal agencies to work better and with lower costs. Some of these opportunities involve improving functions like debt collection at the Departments of Treasury, Justice, and State, to increase collection rates as well as reduce redundancies in personnel and administrative infrastructure. Others involve streamlining field office operations, like those at USDA, to eliminate unnecessary offices, data centers, and telecommunications networks, in order to reduce costs and better serve the public. Over 40 percent of the projected cost savings of the NPR efforts depend on implementing ideas involving reengineering with information technology.

Although most of these opportunities as yet remain unachieved, NPR is taking initial steps toward meaningful cost and service improvements. It is sending a strong signal to agencies on the need to change and is encouraging creative solutions to existing problems. NPR is also beginning to define customer service requirements--a critically

important activity. As we note in our recent review of NPR, many of its improvement proposals warrant consideration and further illustrate the potential benefits that a modern government could offer.

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At your request, we are working with this Committee to assess and prioritize a wide range of functional and programmatic areas that can be redesigned, consolidated, privatized, or eliminated altogether. Our work includes selecting a priority group of target opportunities, analyzing the relevant business processes, benchmarking them against world-class organizations with similar processes, and quantifying potential cost savings. We plan to report back to the Committee on our progress with this effort in the spring.

Mr. Chairman, I look forward to working with this Committee as it strives for a better managed government. We would be glad to answer any questions that you or other members of the Committee may have at this time.

APPENDIX I. RELATED GAO PRODUCTSGovernmentwide

Reengineering Organizations: Results of a GAO Symposium (GAO/NSIAD-95-34, Dec. 13, 1994).

Management Reform: Implementation of the National Performance Review's Recommendations (GAO/OCG-95-1, Dec. 5, 1994).

Executive Guide: Improving Mission Performance Through Strategic Information Management and Technology--Learning From Leading Organizations (GAO/AIMD-94-115, May 1994).

Improving Government: GAO's Views on H.R. 3400 Management Initiatives (GAO/T-AIMD/GGD-94-97, Feb. 23, 1994).

Management Reforms: Examples of Public and Private Innovations to Improve Service Delivery (GAO/AIMD/GGD-94-90BR, Feb. 11, 1994).

Improving Government: Actions Needed to Sustain and Enhance Management Reforms (GAO/T-OCG-94-1, Jan. 27, 1994).

Information Resources: Summary of Federal Agencies' Information Resources Management Problems (GAO/IMTEC-92-13FS, Feb. 13, 1992).

Financial Management Issues

Financial Audits: CFO Implementation at IRS and Customs (GAO/T-AIMD-94-164, July 28, 1994).

Financial Management: Status of CFO Act Implementation at the Department of the Treasury (GAO/T-AIMD-94-157, July 13, 1994).

Financial Audit: Federal Family Education Loan Program's Financial Statements for Fiscal Years 1993 and 1992 (GAO/AIMD-94-131, June 30, 1994).

Financial Management: CFO Act Is Achieving Meaningful Progress (GAO/T-AIMD/GGD-94-149, June 21, 1994).

Financial Audit: Examination of Customs' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-119, June 15, 1994).

Financial Audit: Examination of IRS' Fiscal Year 1993 Financial Statements (GAO/AIMD-94-120, June 15, 1994).

Financial Management: DOD's Efforts to Improve Operations of the Defense Business Operations Fund (GAO/T-AIMD-94-146, Mar. 24, 1994).

Financial Management: Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations (GAO/T-AIMD/NSIAD-94-154, Apr. 12, 1994).

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Financial Management: Control and System Weaknesses Continue to Waste DOD Resources and Undermine Operations (GAO/T-AIMD/NSIAD-94-154, Apr. 12, 1994).

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DOD's CALS Initiative (GAO/AIMD-94-197R, Sept. 30, 1994).

Commercial Practices: Opportunities Exist to Enhance DOD's Sales of Surplus Aircraft Parts (GAO/NSIAD-94-189, Sept. 23, 1994).

DOD Procurement: Overpayments and Underpayments at Selected Contractors Show Major Problem (GAO/NSIAD-94-245, Aug. 5, 1994).

Commercial Practices: DOD Could Reduce Electronics Inventories by Using Private Sector Techniques (GAO/NSIAD-94-110, June 29, 1994).

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Defense Procurement: Millions in Overpayments Returned by Contractors (GAO/NSIAD-94-106, Mar. 14, 1994).

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DOD Computer Contracting: Inadequate Management Wasted Millions of Dollars
(GAO/IMTEC-93-31, June 25, 1993).

Defense Weapons Systems Acquisition (GAO/HR-93-7, December 1992).

Defense Inventory Management (GAO/HR-93-12, December 1992).

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(GAO/IMTEC-92-77, Sept. 14, 1992).

Internal Revenue Service

Tax System Modernization: Status of Planning and Technical Foundation
(GAO/T-AIMD/GGD-94-104, Mar. 2, 1994).

IRS Information Systems: Weaknesses Increase Risk of Fraud and Impair Reliability
of Management Information (GAO/AIMD-93-34, Sept. 22, 1993).

Tax Administration: Achieving Business and Technical Goals In Tax Systems
Modernization (GAO/T-GGD-93-24, Apr. 27, 1993).

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(GAO/GGD-93-40, Jan. 22, 1993).

Tax Administration: IRS Can Improve Controls Over Electronic Filing Fraud
(GAO/GGD-93-27, Dec. 30, 1992).

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Social Security Administration: Major Changes in SSA's Business Processes Are Imperative (GAO/T-AIMD-94-106, Apr. 14, 1994).

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Department of Commerce

Weather Forecasting: Systems Architecture Needed for National Weather Service Modernization (GAO/AIMD-94-28, Mar. 11, 1994).

Patent And Trademark Office: Key Processes for Managing Automated Patent System Development Are Weak (GAO/AIMD-93-15, Sept. 30, 1993).

Department of Agriculture

USDA Restructuring: Refocus Info Share Program on Business Processes Rather Than Technology (GAO/AIMD-94-156, Aug. 5, 1994).

Department of Housing and Urban Development

HUD Information Resources: Strategic Focus and Improved Management Controls Needed (GAO/AIMD-94-34, Apr. 14, 1994).

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Environmental Protection Agency

Environmental Protection: EPA's Plans to Improve Longstanding Information Resources Management Problems (GAO/AIMD-93-8, Sept. 16, 1993).

Department of Energy

Department of Energy: Better Information Resources Management Needed to Accomplish Missions (GAO/IMTEC-92-53, Sept. 29, 1992).

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Post-Hearing Questions by Senator Glenn
Questions for Mr. Bowsher

1.Streamlining is now a priority for all agencies and IT modernization is central to most streamlining goals.

A. Given your testimony about poor IT planning, to what extent will agencies really be able to meet their streamlining goals? Do you have some examples of problem areas?

Response: Streamlining plans are currently being developed by the federal agencies. We have not reviewed any yet, but when the plans are completed, we will be focusing, among other things, on the critical interrelationship between IT modernization and the streamlining goals. One of the key things we will look for is whether IT investments are being used to support redesigned business processes, rather than simply automating old and, potentially, highly inefficient processes. Ultimately, the ability of agencies to integrate IT and streamlining depends on their strategic management processes. In the past, we have found these strategic management processes to be seriously inadequate. The current reauthorization of the Paperwork Reduction Act offers a good legislative framework to integrate all the key elements of strategic management, such as strategic planning, information planning, budgeting, and financial management.

B. Are there any examples of streamlining plans that are at odds with IT plans and are there any agency streamlining plans tied to clearly underfunded or very poorly planned IT modernizations efforts?

Response: Several of the areas that I highlight in my testimony--USDA's Info Share initiative, Veterans Benefits Administration's claims process modernization, and SSA's construction of a large personal computer network--provide examples of key problems in this regard. We continue to find cases of agencies that embark on large-scale technology

purchases without first considering the need to modernize the basic business and service delivery processes that the new technology is to support. Given the need to maximize the return on the government's IT investments, it is critical that IT modernizations both be driven by and support the modernization of the agencies' core business processes.

2. In your testimony, you mentioned creating a new "high risk" category for vulnerable IT initiatives.

A. What IT investment programs are on the verge of collapse?

Response: Our high risk report includes 4 major IT initiatives. Each is in a different phase of development and is on our list for different reasons. (1) FAA's air traffic control (ATC) modernization project covers all parts of the \$36 billion effort to overhaul the nation's air traffic control system and includes the remainders of the Advanced Automation System, components of which were canceled, replaced, and/or restructured. That system failed because FAA did not recognize the technical complexity of the effort, realistically estimate the resource required, adequately oversee its contractors' activities, or effectively control system requirements. (2) IRS's Tax Systems Modernization (TSM) initiative is intended to automate existing problem-plagued functions. To date, IRS has demonstrated only a limited understanding of whether or how different systems will eventually connect to improve tax processing overall. Through fiscal year 1995, IRS will have spent or obligated over \$2.5 billion on this \$8 billion initiative. (3) DOD's Corporate Information Management (CIM) initiative was estimated by DOD to save billions by streamlining the department's operations and managing resources more effectively. However, the results to date have been mixed. Defense has largely been consumed with trying to pick the best of its hundreds of existing automated systems and standardizing their use across military components. As a result, DOD is spending some \$3 billion annually to develop and modernize automated information systems, while major Defense business processes supported by these systems--such as personnel, payroll, inventory management, supply distribution, and contract administration--

have not been examined for business process reengineering opportunities. (4) The National Weather Service's program to modernize its weather observing, information processing, and communications systems was originally expected to be completed in 1994, but it now estimated not to be completed until 1999. Also, the system that is to be the centerpiece of the modernization has recently experienced design problems and is being restructured. Additionally, the many systems comprising the modernization have long proceeded without the benefit of an overall architecture to guide their design, development, and evolution. This has negatively affected the modernization's cost and performance by requiring additional resources to acquire, interconnect, and maintain hardware and software.

B. Which, if any, should be stopped?

Response: All of these initiatives are complex and composed of several parts. It is important to look at their component projects to make such determinations. We will continue our detailed evaluation of these initiatives and plan to identify which component projects to stop, which to slow or curtail, and which to move ahead.

3. The National Performance Review proposed using franchise and innovation funds, and our Government Management Reform Act of 1994 authorized franchise fund pilots. Should agencies be looking for new or different ways to finance IT investments?

Response: We are definitely spending enough now on IT. The problem is not a lack of revenue sources for new projects. Instead, we need to focus attention on redirecting funds to projects that use modern management practices and business process reengineering to achieve major improvements in program performance.

4. GAO has been following DOD's Corporate Information Management (CIM) initiative for years. And there has been one problem after another.

A. What does the CIM experience tell us about reengineering and IT modernization efforts? Can a real overarching CIM-like approach actually work? If DOD can't do it, who can?

Response: Defense's experience with CIM shows what happens when information technology assumes a lead rather than a supporting role in implementing reengineering in an organization. The greatest benefits come from wholesale changes to the business processes, yet Defense has focused most of its efforts and money on standardizing information systems. Information technology can enable change and significantly contribute to reengineering efforts, but only after critical strategic and business decisions are made. While the Department touts its over 200 reengineering projects, these tend to be small, bottom-up driven, incremental improvement projects that the Department is having difficulty implementing. Defense seems convinced that significant process improvements will be achieved simply by "migrating" to standard information systems. However, based on our private sector "best practices" work, we do not believe this to be true. If Defense follows its current course of action, it will waste billions trying to implement systems that automate inefficient and outdated processes--systems that have only a marginal return on investment. Moreover, it will be missing opportunities for greater efficiency and significant savings possible through reengineering.

An overarching CIM-like approach can work, but not the way Defense is implementing it. Missing are top-management commitment to "champion" and manage the change process and a strategic information management framework to help ensure its success. Defense is a very complex organization, and CIM involves every business and administrative operation within all of its functional areas. Responsibility for CIM policy and direction resides with Defense's senior IRM official, but he does not control the functional processes to be reengineered or the resources needed to reengineer them. These belong to the military services and defense agencies. Therefore, strong leadership from the Secretary of Defense and the Chairman of Joint Chiefs of Staff is essential to achieve Department-wide buy-in to the change process. Their personal commitment and continuous involvement are needed to make tough decisions such as selecting among alternatives, accepting risks, and overcoming resistance to change.

Also, a comprehensive and consistent strategic information management framework could help institutionalize CIM, and coordinate it with the numerous other management reform initiatives ongoing in various sectors of the Department.

B. What should be done with CIM? What are options?

Response: Defense should drastically scale back its implementation of CIM until it implements an integrated management framework within the PPBS that links reengineering efforts with information technology modernization efforts. This framework must show the commitment of the Secretary of Defense and the Chairman of the Joint Chiefs of Staff and ownership by the CINCs, Services, and Defense Agencies who must be the champions of major changes and take on full responsibility and accountability for their implementation. Without such a framework, Defense's reengineering efforts will stay as "paper exercises" that are unfunded and not implemented. The CINCs, Services, and Defense Agencies, will not buy-in to changes until they see the benefits to their mission outcomes e.g., shifting resources from overhead to operations. The Secretary and the Chairman must provide leadership that includes incentives and rewards to obtain buy-in to the overall change process.

After this framework is established, reengineering efforts should be scaled back to focus on a few select processes that are central to Defense's operations. These projects should be high impact, high return and executable. To force dramatic change, the Secretary and the Chairman should require drastic changes in the selected processes such as a 50 percent cost reduction or a 10-fold decrease in cycle time. Information technology modernization funds should be cut from ongoing programs not supported by reengineering and transferred into readiness accounts to support unfunded requirements.

5. GAO has reported on problems with DOD's Defense Finance and Accounting Service (DFAS) systems consolidation efforts, such as the DFAS systems "migration " strategy.

A. What is your level of confidence in the DFAS migration efforts?

Response: We do not have a high level of confidence that DFAS' migration efforts will significantly improve its accounting and finance operations. Problems that have plagued Defense in the past, such as untimely and inaccurate financial data, still exist. Moreover, the migration strategy suffers from the same shortcomings I discussed concerning CIM. The migration strategy involves standardizing on existing systems without first reengineering processes. Under this approach, it is questionable whether DFAS will achieve significant productivity gains, cost savings, or accountability improvements. In addition, accounting systems are first being standardized within each military service. While DFAS plans to eventually develop Department-wide systems, this will take many years to complete. The current strategy will continue to perpetuate strong service oriented processes and cultures and, thus, exacerbate any productivity gains made possible through standardization and consolidation.

Over the past 20 years, the military services and DFAS have not had many success stories on (1) developing and implementing new financial systems or (2) improving the existing systems. For example, our work on the \$77 billion annual operations of the Defense Business Operations Fund (DBOF) has shown that the Fund's 80 systems have never produced accurate and reliable data. DOD acknowledges the problems, and selected 12 standard migration systems to account for DBOF's resources. However, these systems were selected before performing a functional economic analysis to evaluate process requirements and problems, proposed solutions, alternatives, constraints, life cycle costs, benefits, and risks. In our March 1995 report on DBOF, we recommended that DOD prepare a functional economic analysis for each of these systems prior to authorizing of funds to implement them.

B. What about DFAS' ultimate plan for reengineering and a CIM solution for its systems?

Response: Implementing sweeping management reform initiatives like CIM is extremely difficult. DFAS' implementation approach should shift more effort to reengineering business process and systems, rather than devoting the majority of its attention to standardizing systems. While both are important, most productivity gains will come from reengineering processes and information systems and integrating them across functional lines. For example, after spending approximately \$20 million to develop a DOD-wide travel system, the effort was terminated because DOD decided to examine its travel processes in greater depth and make these processes more efficient.

6. I understand that the Defense Logistics Agency has been making progress in reengineering and in applying "Best Practices" lessons.

A. Can you describe some of these accomplishments?

Response: We have seen some progress from DLA in applying best commercial practices in several areas, particularly for personnel items, such as medical, food, and clothing supplies. Since 1992, DLA has taken steps to use prime vendors (a technique successfully applied in the private sector) for providing these types of items directly to military facilities. By 1997, DLA expects to reduce inventories for personnel items 53 percent from 1992 levels by expanding the use of concepts like the prime vendor.

The most successful initiative to date has been the implementation of a prime vendor program for medical supplies, particularly pharmaceutical products and medical and surgical items. The use of this program has allowed DLA to reduce stock levels at both wholesale and retail locations. For example, since September 1993, DLA reduced wholesale pharmaceutical inventories by about \$48 million (or about 50 percent of the total of such items) and estimates it will reduce its total medical inventories by about \$97 million (about 40 percent of the total of such items) over the next three years. By mid-1995, approximately 156 Defense medical

facilities will be using prime vendor programs in 21 different geographic regions across the United States.

The prime vendor program also enables Defense hospitals to reduce retail inventory levels and save millions in operating costs. For example, at the Walter Reed Army Medical Center, in addition to a \$3.8 million reduction in pharmaceutical inventories, officials estimate that by using a prime vendor, they save \$6.1 million a year in related inventory management expenses.

B. What are the keys to DLA's success?

Response: This program has been successful for several reasons, but principally because of top-management commitment and DLA's recognition that in order to cut costs it needed to change both its corporate culture and the way it does business. However, achieving world class levels of cost and service will take years of effort. We have found that business process reengineering is a dynamic process that takes time. For example, leading private sector firms agree that a cultural change is needed to apply modern logistics concepts and that this change can take 5 to 10 years. Progressive civilian hospitals like the Vanderbilt University Medical Center in Nashville have greatly reduced inventories using prime vendors, but have continued to evaluate their operations and make improvements to maintain their competitive edge.

C. In what areas does DLA need to make more progress?

Response: While DLA has taken steps to improve its logistics practices and reduce inventories, more aggressive steps could increase savings by billions of dollars. DLA needs to make more progress with its \$8 billion inventory of hardware items where it continues to store large amounts of items, such as bolts, valves, and fuses, that cost millions of dollars to buy and store. In fact, DLA hardware inventory levels in 1992 are expected to decrease only 20 percent by 1997. In contrast, private sector companies, such as PPG Industries and Bethlehem Steel, have reduced similar inventories by as much as 80 percent and saved

millions in associated costs by using "supplier parks" and other techniques that give established commercial distribution networks the responsibility to manage, store and distribute inventory on a frequent, regular basis. If DLA were able to adopt similar practices, hardware inventories and related management costs could be reduced by billions of dollars.

7. One bright spot in the Pentagon's reinvention of logistics is the Joint Logistics System Center (JLSC). I understand, however, that within DOD some are proposing to cut back on the Center's funds for reengineering. This concerns me very much.

A. Isn't this counter-productive?

Response: It would be if JLSC was working on reengineering. Unfortunately, the Deputy Secretary of Defense's October 1993 memorandum mandating acceleration of migration systems resulted in JLSC changing its focus from reengineering to systems standardization. So, since that time, JLSC, like other CIM areas, has been doing little real reengineering work.

B. If these cuts are made, won't they cut out the very thing that is needed to deliver logistical support in a streamlined environment--that is, the reengineering?

Response: In early 1992, JLSC was a bright spot in Defense's efforts to reinvent logistics support. It had identified 20 improvement projects where it expected to achieve quick, identifiable cost savings and garner user support for CIM. Its mission, however, was subsequently redirected to where it is now focusing almost exclusively on selecting depot maintenance and materiel management migration systems. Very little is being done to actually reengineer logistics business processes. Equally as important, the Deputy Secretary of Defense has mandated that all migration systems be operational by 1997. In order to meet this timeframe, it appears that JLSC has bypassed some critical controls for justifying and implementing information systems, e.g. functional economic analyses and MAISRC reviews used to assure that the investment in an automation project is cost justified and technically

feasible. As a result, costs for implementing the systems may be substantially more than expected with only marginal returns expected on its investment.

Therefore, while we share your concern about JLSC's budget being cut, we are more concerned that they are working on the wrong thing--systems standardization rather than business process reengineering. This shortsighted approach has hindered JLSC's ability to assist the services in reengineering their work processes. Instead, millions are being invested to implement standard systems of questionable value. Moreover, this will delay reengineering because it will lock the services into the inefficient practices associated with these systems. Furthermore, the high cost of implementing standard systems coupled with the potential budget cuts make it highly unlikely that funds will ever be provided for process reengineering. As a result, the Department will be settling for a marginal gain (2 to 3 percent from standard systems) versus the potential ten fold increases in productivity that leading private sector companies have realized through reengineering.

8. In light of your testimony on reengineering and information technology, please describe IRS' progress and problems in its Tax Systems Modernization (TSM) project. Please include in your answer a discussion of the impact of budgetary cuts to TSM.

Response: IRS has made limited progress toward its vision of a virtually paperless work environment where taxpayer information is immediately available to IRS employees whenever and wherever it is needed. IRS has completed some initial systems with TSM funds and these systems have improved IRS' current tax processing and compliance operations. For instance, the systems have shortened processing time and reduced the amount of paper handled in certain instances. However, the completed systems were not built to be an integral part of the comprehensive TSM system and do not deliver the large increases in capability and customer service that IRS sees in its vision for TSM.

Given the massive nature of the effort, we are concerned that IRS continues to develop systems with potentially inadequate strategic management processes and systems development processes. Because of these concerns, GAO placed TSM on its list of high-risk government programs. Regarding the budget cuts that IRS experienced in fiscal year 1995, IRS reduced TSM funding for many projects. However, no TSM projects were canceled.



Testimony
of
George Newstrom
EDS Corporation
Corporate Vice President
and
Group Executive, Government Services Group
Before the Senate Governmental Affairs Committee

February 2, 1995

INTRODUCTION

Good morning. I am George Newstrom, EDS Group Executive, Government Services Group and Corporate Vice President. I want to thank you and your staff for the opportunity to be here today and for soliciting EDS' views on the application of business process reengineering within the Federal government. EDS has operations across the United States and in 35 countries around the world. We have customers in a variety of industries, including health care, banking, manufacturing, transportation, retail, communications, and government. In order to remain competitive in the global market place, EDS has been at the forefront of efforts to use business process reengineering. I feel this experience base has as much application to the Federal government as it does to any of EDS' other customers in the state and local, commercial, or international sectors.

KEY PRINCIPLES OF BUSINESS PROCESS REENGINEERING

Management consultant Michael Hammer defines business process reengineering (BPR) as "the fundamental rethinking and radical redesign of business processes to achieve dramatic improvements ... in cost, quality, service, and speed." At EDS, we have modified this definition a bit and refer to the concept as "the fundamental rethinking and radical redesign of an enterprise's business processes from the customer's perspective."

In some ways, the label is unfortunate since reengineering suggests the processes that are closely studied are only modified in a small way. In reality in many cases, the old processes should be totally discarded in order to start over from the beginning — using a clean slate. I feel that all too often we in industry and managers in government proceed too timidly in regard to reengineering, when instead a fresh new start is warranted and would lead to the dramatic improvements being sought.

Organizations undergoing business process reengineering must accept that no traditional business practice is sacred, and must be willing to rethink and change how they operate. To achieve dramatic improvements in critical performance measures, such as cost, quality, and time, an enterprise must be prepared to change its business practices; its job definitions; its organizational structures; and its policies, measurement, and reward systems. While many believe it is the work place that is changing, I submit that the key element is not the work place, but rather the mind-set!

We have realized that merely investing in new computer hardware and software to only expedite the speed of accomplishing existing tasks is a foolhardy exercise. We strongly encourage our customers to first carefully understand the needs of their customers; then determine how to best deliver the new requirements. Then, and only then, will they be prepared to determine what particular technologies would best fulfill these requirements.

We have found several scenarios tend to motivate an organization to seek business process reengineering: existing processes do not work; leading performance indicators show negative trends; there is a need to gain competitive advantage; and there is a desire to preempt a competitive response. The National Performance Review and this hearing demonstrate the government's recognition -- at the highest level -- of the need for change.

At EDS, we take some very basic steps to determine if business process reengineering is the best course of action to resolve a particular management challenge. Initially, we identify the key processes of the organization. We do this by linking processes to critical success factors. The decision to reengineer is based on the likelihood of achieving a process improvement breakthrough that could lead to at least a five-fold improvement in efficiency and effectiveness.

If the application of information technology to the process offers a likelihood of dramatic improvement, this is another indicator that

reengineering should be undertaken. An example would be replacing couriers with an electronic funds transfer system. We also consider whether the organization is able and prepared to change employee job assignments, job duties, practices, and reward systems. If so, reengineering – that would likely impact these areas – is possible.

EDS' reengineering methodology is much more complex than I will be able to describe during today's hearing. However, I have included a diagram of this methodology at the end of my statement. Please note the location of technology implementation at the very end of this lengthy process -- where the business process is actually developed and the information technology implementation plan begins.

MAGNITUDE OF SAVINGS REALIZED THROUGH REENGINEERING

A variety of organizations have used business process reengineering to make dramatic improvements in efficiency, service delivery, and level of performance. They have discovered the benefits of reengineering include: breakthrough improvements in process effectiveness and efficiency; work performed where it makes sense from the perspective of the customer, partner, or supplier; increased employee teamwork and knowledge; more productive application of information technology as a process enabler; and alignment of process improvement efforts with the vision of the organization.

Let me cite a variety of success stories in the private sector:

GM's Corporate Information Management Initiative

As an independent subsidiary of General Motors Corporation, we have found many opportunities for utilizing business process reengineering to help GM respond to changes such as market shifts, globalization, and increased competition. Together, GM and EDS selected the best-in-class systems, technology and otherwise, and departmental organizations as

the foundation of the reengineering and consolidation effort. A steering committee coordinated the centralization of systems and processes.

We consolidated 150 Finance redundant/overlapping systems into three standard systems. In the Personnel Department, 60 salary payroll systems were combined into just one. We used business process reengineering to implement warehousing and inventory systems and to eliminate redundant systems in Health and Benefits. We engineered the telecommunications infrastructure so that 100 separate voice and data networks were consolidated into EDSNET, the world's largest privately owned digital telecommunications network.

By revamping procedures and implementing state-of-the-art technology, GM was able to reduce its overall information technology budget from 8 percent to less than 2 percent.

Chicago Parking Authority

We also have used BPR to help the city of Chicago respond to a \$420 million backlog in unpaid parking tickets. At the outset, Chicago authorities described their business problem as a "lack of revenue collection on parking tickets", rather than asking for a specific technological solution. The business of ticket writing and administration was totally revamped. Technology was introduced that makes ticket writing easier through hand-held devices, improves ticket readability by 100 percent and administration, focused on our customer requirements, were implemented. This approach has increased revenue collections from approximately 15 cents per dollar to over 65 cents per dollar, with the goal being 80 cents per dollar. Better yet, citizen satisfaction and approval is at an all time high.

Hallmark Cards

Michael Hammer and James Champy, in *Reengineering the Corporation*, pointed out that Hallmark decided to reengineer not because of business crises, but as a preemptive competitive strike. As a result of business

process reengineering, the firm changed most aspects of its operations in order to dramatically reduce the time that elapses from identifying a new market need to filling it with a card on the retailer's shelf. The reengineering was time consuming since each of Hallmark's 22,000 employees was involved in the activity of formulating, reaching consensus upon, and internalizing common business practices. To expedite the flow of sales data from stores to the corporate headquarters, Hallmark installed computerized point-of-sale systems using barcodes to capture detailed purchase information. The entire undertaking paid off well. The first line of cards developed under the new procedures were delivered to stores eight months ahead of schedule.

OPPORTUNITIES IN THE FEDERAL GOVERNMENT

Too often, however, a federal agency in its quest to better harness technology seeks a specific information product or service rather than to address the overall business objective. And whether that be a mainframe, a MIP, a line, a network, or LANs and WANs of today, this is the antithesis of what I am proposing today. In the commercial sector we are delivering solutions for a customer, and the solutions are for their business problems. For example, how do they get a product to market as quickly and as economically as possible? We must be able to translate that same way of working into solving the government's problems in serving citizens.

We have found that Federal agencies are now realizing that operating in the information age -- the information-centered world described by authors Alvin and Heidi Toffler in *Third Wave* -- means that they too must master the art and science of business process reengineering.

For example, many U.S. Department of Defense reengineering efforts begun under the National Performance Review will have significant returns for taxpayers.

- For example, the steps needed to manage DOD travel have been reduced on a pilot basis from 17 to four. When implemented

department-wide, the new procedure is expected to save more than \$1 billion over five years.

- In addition, DOD has reduced the replenishment cycle time for small purchases from 100 days to four days. This procedural change alone has resulted in an estimated reduction in annual overhead costs of \$100 million.

Civilian agencies have also begun to realize the need for reengineering. Some examples include the following:

- The U.S. Department of Agriculture is encouraging the use of electronic benefits transfer in the food stamp program for the delivery of benefits directly to the recipient.
- The Department of Energy has established the Bonneville Power Administration as a model "reinvention laboratory" and granted it 175 waivers from regulations. This has allowed Bonneville to streamline its business practices and enabled it to improve customer service, resulting in estimated savings of \$6.6 million annually.

The Information Technology Association of America (ITAA) has arranged for senior executives from a wide cross-section of technology firms to share their views on this subject with the Department of Defense. Arrangements are being made for ITAA to also assist civilian agencies to do the same.

PITFALLS IN IMPLEMENTING REENGINEERING

We have found that if leaders are not committed to change, none will occur. More than 50 percent of all reengineering undertakings fail for this very reason. In addition, entities contemplating the use of reengineering should not expect immediate results. In fact, the time invested in reengineering is significant -- typically 8 to 18 months. Peter Drucker, considered to be the father of corporate restructuring, stresses the

importance of ensuring the full participation during reengineering of all employees in an enterprise -- from entry level to senior management.

Our major obstacle in reaching our full potential is the sense of urgency and lack of boldness in action. Those that don't change, are not just left behind, as in the past, but they CEASE TO EXIST!. Retailers are not just increasing sales with kiosks in malls or through catalogue sales, they are thinking in terms of selling directly to consumers by way of the Internet. Entertainment of all sorts; movies, sporting events, and news programs of your choice will be coming to your home when you want them, not when someone else schedules them. Why should the U.S. Geological Survey spend time developing new ways to sell paper maps? Instead, why not use business process reengineering to replace paper map capabilities like retailers and entertainment companies are exploring.

If the organization has articulated and agreed upon the vision and goals... if key processes are aligned with them. . . and if managers think expansively then reengineering will likely produce the desired results.

WHAT SHOULD CONGRESS DO TO PROMOTE REENGINEERING?

I suggest that you in Congress utilize whatever means are at your disposal to encourage Federal agencies to boldly pursue the use of business process reengineering to re-think, re-organize, and re-tool for the 21st Century. Such processes may actually result in accepting that some government agencies have outlasted their vision or purpose, and/or have been replaced by the marketplace. I hope you will go to great lengths to publicize Federal efforts already underway to move in this direction. In this area, there should be incentives granted to agencies that excel, and disincentives for those that engage in foot-dragging.

According to Drucker, although substantial cost savings accrue from reengineering, they always emerge as a by-product. However, he estimates that such rethinking could produce enough savings to eliminate the federal deficit within a few years. It is important to realize that

business process reengineering generates substantial savings since the cost of the new procedures are instead of, not in addition to the cost of the former way of doing something.

Perhaps there are ways that the private sector could more frequently enter into partnerships with Federal agencies in the implementation of business process reengineering. We hope that you will not think of information technology firms as just the technologists in the back room. Instead think of firms like EDS as full-fledged partners -- sharing the rewards -- and the risks of this creative undertaking. In addition, Federal agencies can enter into either consultative or outsourcing arrangements with the private sector to explore in detail the benefits of reengineering.

The Clinton administration's approach to reinventing government is definitely a step in the right direction. Senator Roth, your plans for fundamentally redesigning the Federal government are also most laudable. They indicate to all taxpayers that you are committed to seeing this type of process through over the long term, and that you will not be satisfied with half-solutions.

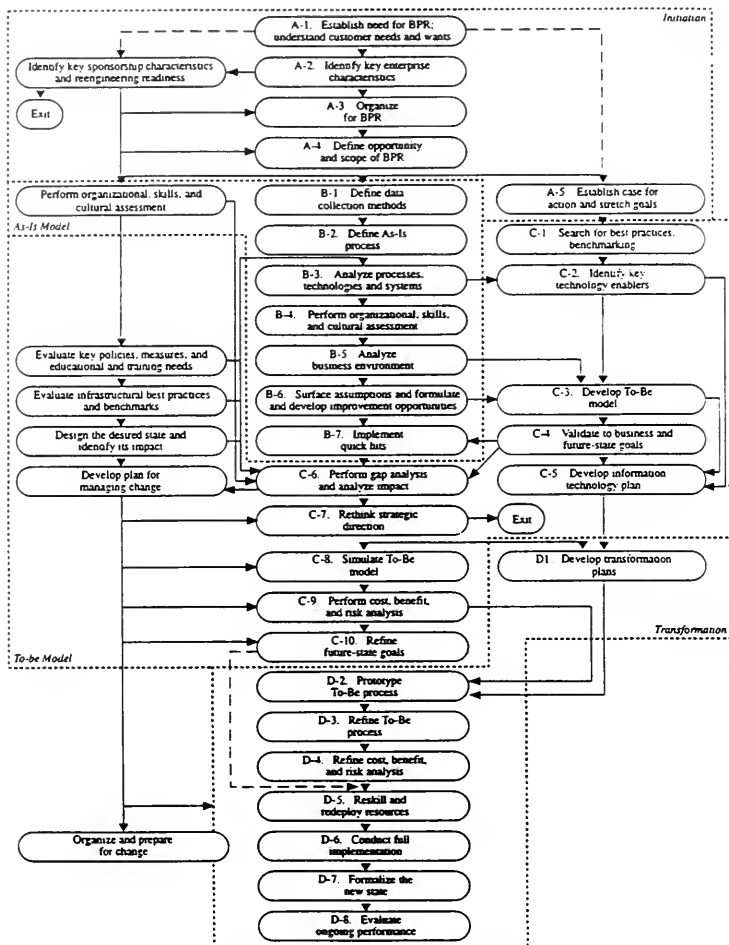
To paraphrase Drucker: "Reengineering (the Federal government) is new, and it has to be done." He has also concluded that:

"Rethinking government, its programs, its agencies, its activities, would not by itself give us [a] new political theory. But it would give us the factual information for it. And so much is already clear: the new political theory we badly need will have to rest on an analysis of what does work rather than on good intentions and promises of what should work because we would like it to. Rethinking will not give us the answers, but it might force us to ask the right questions."

Senators, I have painted a picture of radical change that is engulfing us as quickly and totally as does the sunlight in the morning. It is not just your children and their children that will benefit from these wonderful opportunities - it is you and I within our NEAR lifetimes. While you may have to deal with mundane issues like running government, departments

and agencies - the sense of urgency is clear and obvious - it is your appetite for boldness in action that will be the preamble for the greatest novel yet to be written which I would entitle: "Government: of the people; by the people; for the people."

Thank you for inviting me to testify during today's hearing. I would be pleased to take any questions that you might have.



EDS Business Process Reengineering Methodology

STATEMENT BY
CYNTHIA KENDALL
DEPUTY ASSISTANT SECRETARY OF DEFENSE
(INFORMATION MANAGEMENT)
BEFORE THE
SENATE GOVERNMENTAL AFFAIRS COMMITTEE
FEBRUARY 2, 1995

Mr. Chairman and members of the Committee, it is a pleasure to testify on behalf of the Department of Defense before your Committee in its effort to develop a comprehensive blueprint for reform that will rightsize the federal government. Because this second hearing which your Committee is holding on Reinventing Government focuses on Information Management Systems in the Federal Government, you have asked that the Department speak on specific activities undertaken that have resulted in significant improvements in the Department's efficiency and effectiveness.

Business Process Reengineering (BPR) is a central activity of the Corporate Information Management (CIM) Initiative. Today, I will focus my comments on BPR, as you requested. But please recognize that our work in data administration, information technology and systems, and migration systems are all critical parts of the success of CIM within DoD. They are all important in their own way to the success of BPR in DoD. Overall we are pursuing a combined strategy of process improvement and integrated information support. As we've found, with an organization as complex and large as the DoD, the ability to send and receive information consistently and accurately can mean the difference between success and failure, a near miss and a direct hit, or life and death.

The DoD has much to show for its investments in process re-engineering and in information technology. The technology has enabled:

- (1) rapid, effective emergency response anywhere on the globe;
- (2) smooth transition of warplanning capabilities away from Cold War scenarios to regional or localized contingencies;
- (3) improved accountability for taxpayer dollars;
- (4) medical response from the battlefield to the hospital that is unparalleled;

- (5) logistics support to anywhere at any time; and
- (6) command and control of forces regardless of location or urgency.

The DoD is continuing to seek additional technology benefits, especially as these can be obtained through working smarter and economically.

As the DoD budget declines, however, the DoD not only must be able to do more with less, but also be able to discern when less should be done; that is, which functions must be eliminated or could be better performed outside the Government realm. The DoD has found that process re-engineering goes beyond the efficient use of technology and information management and cuts to the core of examining the basic functions of the Department.

Perhaps I should begin with a caveat. In our literature you will see the terms business process reengineering, functional process improvement (FPI), and business process improvement (BPI) used. We in DoD do not generally distinguish between the use of these terms, but we understand the academic use of them by leading authors. In practical use, we are making improvements -- some quantum and some gradual.

DoD has been focusing on business process reengineering business for about five years. Our CIM reengineering efforts span all of the functions of the Department, not just information management or information technology. I must say that my predecessors got DoD off on the right foot for making the changes it has made and continues to make. However, under Secretary Perry, DoD has taken a more stringent and measured look at how DoD's mission has changed and how we can respond as quickly and effectively as possible within resource constraints.

Under this Administration, we have chosen to accelerate many of the actions associated with process re-engineering. Many of these actions are to eliminate unnecessary duplication of computer systems and data. These duplicative systems are a drain on our resources and do not add payback because we must continue to maintain them.

We have a Department-wide policy on information management and process reengineering. This policy is not a huge book -- it is only about 10 or so pages long -- and it conveys all the guidance that we feel is necessary for decisionmakers to do their jobs.

In DoD, we place responsibility for process re-engineering in the hands of the leadership for each function. We do not have technicians or outside consultants coming up with theoretical solutions -- the leadership of each area is in charge. For example, the Under Secretary of Defense (Comptroller) is running the show on accounting and financial management. We in the Office of the Assistant Secretary of

Defense(Command, Control, Communications and Intelligence) have responsibility for command and control, communications, intelligence, and information management. We are personally making sure that processes are being re-engineered in all of these areas -- and that includes the intelligence arena.

Briefly, our methodology involves the concept of internal activity analysis. That is to say, the people most important and most involved must be the functional DoD employees performing the activity or activities under analysis. Our notion that process change must begin with those involved is central to our concept of BPR. We believe that small groups of functional experts in a given area, assisted by other experts on call as necessary, can identify the best process improvement opportunities.

Our method has top management support. For example, the Deputy Secretary of Defense in June of this past year approved the CIM Strategic Plan, which has as its first of six goals, "Reinvent and Reengineer DoD functional processes to achieve greater mission effectiveness at lower cost."

Commanders and managers all over DoD are trying desperately to "do more with less" and are looking for the right kinds of changes and improvements to help them do this. We have commanders and managers at every level who are applying the policy and methodologies for BPR which have evolved, by study and experience, over the last four years. Many of those BPR activities have been conducted under the umbrella of the CIM initiative. Outside the CIM initiative, there have been and continue to be many people throughout the DoD who are making major innovations to the ways they do business.

We have an urgency for change as well and understand our true need to reengineer our business processes. Part of this is associated with dwindling funds, but part of it is also associated with reducing the cycle times of the thousands of activities necessary to execute modern warfare, from situational analysis to operational planning to deployment, employment, and redeployment. It has been said many times that the greatest lesson learned from Desert Shield/Desert Storm was learned by our potential adversaries, and that was, "don't give the Americans six months!" This lesson has not been lost on us either, and so our current BPR emphasis is as much on cycle time as it is on cost savings, especially for combat related activities. We must be quick, agile and accurate in modern warfare.

I would now like to turn to some specific examples of our BPR work and look at results. As you would imagine, we have many BPR projects completed and underway right now. They vary dramatically in size and scope. Some of their results are immediate and others will benefit us in the future, as we are able to design, engineer, acquire, and deploy new technologies to enable the changes for some of our more dramatic reengineered processes.

Defense Investigative Service (DIS). The Defense Investigative Service (DIS) processes nearly 1 million personnel security actions each year, affecting personnel in both DoD (military and civilian) and industry (contractors). One of the goals of this project has been to significantly reduce the cycle-time necessary to complete investigations, thereby avoiding unproductive time by contractors and DoD employees who need security clearances to perform their jobs.

DIS began its BPR initiative in March 1992 and within three years will have reengineered nearly 90% of the functional areas within the agency. More than 150 improvement opportunities have resulted thus far. One such opportunity, the Electronic Personnel Security Questionnaire (EPSQ), will provide for the electronic capture, transmission and use of personnel security history data within DIS and throughout all of DoD. It will significantly reduce data entry errors and processing time requirements. Personnel security history data, irrespective of the source-of-entry, will be entered only once but shared many times. It is anticipated that the EPSQ will save DIS' customers nearly \$1 billion (in cost avoidance) over the next six years. DIS, through implementation of additional improvement opportunities and the continued elimination of non-value added activities, will accrue internal savings of nearly \$60 million over the same time period. In addition, it is anticipated that cycle-times for DIS' personnel security investigations will be reduced from 145 days to 120 days.

Spectrum Management and Use. Access to and use of the electromagnetic spectrum is vital to DoD. Traditionally, DoD approaches to spectrum management and use have been partitioned into Command and Service unique activities with complex and cumbersome procedures for identifying requirements, requesting assignments, disseminating approvals, and managing spectrum assets. Due to this complexity and lack of integration, DoD's spectrum management infrastructure was severely stressed during Operation DESERT STORM. As a result, a Functional Process Improvement (FPI) initiative was begun to determine, among other things, a unified (joint) and simplified approach to spectrum management and use throughout the DoD. For the first-time, joint (and integrated) operational procedures were documented. These resulting joint procedures, entitled *Spectrum Management - Joint (SM-J)*, have been adopted by the entire DoD. SM-J will be reviewed for adoption by NATO later this year. The Management and Use of the Electromagnetic Spectrum (MUES) FPI initiative also provided the basis for the selection of "migration systems" for DoD spectrum management and use.

Prior to the MUES FPI, routine frequency assignments would usually require six months. As a result of the process improvements, that period has been reduced to approximately three weeks, with further improvements expected as technology insertion continues. The results of the MUES FPI initiative have positioned DoD to respond, more effectively and efficiently, to a variety of worldwide contingencies (peacetime and wartime) requiring electromagnetic spectrum management and use.

Administrative Support of Medical Evacuees. During Operation DESERT STORM, the Military Services made every effort to keep track of medical patients. Despite these efforts, inadequate accounting and tracking procedures hindered visibility of patients moving through the evacuation process. This prompted the Director, Joint Staff, the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), and the Commander-In-Chief U. S. Transportation Command (CINCTRANS) to undertake joint efforts toward a common goal--to improve administrative support of medical evacuees. The program was founded on a Business Process Reengineering (BPR) project to: 1) integrate USTRANSCOM's new mission as DoD single manager for intertheater medical regulating with their traditional mission of aeromedical evacuation of patients; 2) develop a business case for necessary functional process changes and automation requirements; and 3) to identify information requirements to support automation of patient tracking. This work is the foundation for the proof of concept prototype project TRAC2ES (TRANSCOM Regulating and Command & Control Evacuation System) that will replace two inadequate legacy systems and improve the overall patient movement process. TRAC2ES will produce \$13 million in information systems savings over the system life cycle, reduce the cost of in-transit patient visibility from \$111 to \$28 per patient, and provide an accurate process to track patients. Currently a stand alone prototype system, TRAC2ES will ultimately be integrated into TRANSCOM's Global Transportation Network (GTN) as the medical evacuation module and will become a near-simultaneous decision support information system that provides medical patient in-transient visibility by supporting medical evacuation requirements in both peace and war.

Patient-Focused Care: The Integrated Inpatient Care Project is redefining the "business" of inpatient health care delivery within the DoD Military Health Service System's medical treatment facilities. This business process improvement effort streamlines and standardizes health care delivery through the use of critical paths and individual clinical case management supported by a commercial-off-the-shelf (COTS) clinical information system (CIS). CIS provides automatic data capture for physiological monitoring and wave forms, interdisciplinary clinical care documentation, graphical trending of patient parameters, and a protocol/patient education reference library. The benefits of this initiative will be: decreased variations in clinical practice and health care delivery costs; improved quality and consistency of patient care; improved staff efficiencies; and improved information quality (completeness and accuracy). The projected investment cost is \$94.9M and expected return-on-investment is 1.3 to 1, based on manpower savings, or 2.8 to 1 based on workload recapture. Current plans are to deploy the initial CIS in the summer of 1995.

Medical Logistics. The medical logistics community acquires, manages and maintains supplies, equipment, facilities, and services as a major element of the

Medical Health Services System (MHSS). The goal of this BPR effort is to change medical logistics business practices at the wholesale and retail levels, and supporting information systems, so they meet joint warfighting operational requirements, are more cost-effective, and achieve competitive advantage when compared to best available commercial practices. A Functional Economic Analysis (FEA) was approved by the Medical Functional Steering Committee in December 1992. Several major business practice improvements were implemented in 1993 and 1994 and are generating paybacks. One payback in the area of Prime Vendor implementation is estimated at \$33.8 million. Systems development efforts are currently at the Milestone I approval stage. The project opportunities identified a ROI of 5.7 to 1. A 16-year investment cost is estimated at about \$304 million with a discounted return of about \$1.753 billion expected. Performance improvements include a 50% reduction in local purchasing of medical supplies, and a 60% reduction of medical inventories at the Defense Logistics Agency (DLA). For example, under the implemented pharmaceuticals prime vendor contract concept, vendors using Electronic Commerce have negative surcharges, are acknowledging orders within a few hours, and are achieving next-day delivery. As a result of this project the MHSS will move much closer to the best practices of successful civilian medical enterprises.

DoD Universities. The Universities project is a cross-functional, cross-service initiative targeted at improving the supporting business processes of institutional education at the three Service Academies. The functions include admissions, registrar, alumni development, community services, facilities, and financial management. This comprehensive process improvement initiative was driven by increased scrutiny by the GAO and Congress into the cost and efficiency of the academy operations.

To date academies have identified 711 improvement opportunities. Savings through 1998 amount to \$44 million. The reduction of rejected admission forms at USMA was reduced from 50% to 5%. The USAFA Cadets are now able to adjust scheduling conflicts on-line compared to the previous four hour process. By limiting Urinalysis/HIV testing to admitted students, vice all applicants, \$1 million per year is being saved. At USMA physical examinations were limited to applicants having a high probability of acceptance thereby reducing examinations by 3000 at a cost \$150 each.

Joint Operations Functional Review and Strategic Planning Framework. United States forces are increasingly engaged in joint as well as multinational operations ranging from peacekeeping and humanitarian assistance to resolution of regional conflicts. Current military, political, economic and global trends contribute to increasing use of joint forces. Improving and facilitating the ability of our military forces to operate from a joint perspective has become a foremost objective within the Department of Defense (DoD). The Office of the Secretary of Defense (OSD) and the Joint Staff have committed to supporting joint operations by upgrading its information infrastructure through process improvement initiatives. Command, Control,

Communications, Computers, and Intelligence for the Warrior (C4IFTW) and the Global Command and Control System (GCCS) are the vision and vision implementation respectively.

The goal is to provide the warfighter with a fused, real-time, true picture of the battlespace from a joint perspective. To accomplish this requires that the warfighter define his requirements by modeling and analyzing his processes from a joint perspective, determining process improvement opportunities, and identifying the systems that provide the most utility and those that do not adequately serve his needs. Information requirements must be identified and captured in conceptual data models as an integral part of process analysis and improvement to facilitate integration of systems.

While individual process improvement initiatives have been successful, substantial opportunities can be gained through the integration of past, current, and future projects within the Joint Task Force (JTF) operational environment. There are economies to be gained in adhering to a standard methodology and leveraging accomplishments to date. This integration will ensure a global perspective for joint operations improvements, that objectives of individual projects are met, and the accelerated implementation of optimized improvements.

Achieving this integrated approach required establishing a Strategic Planning Framework to provide the guidelines for all process improvement initiatives within the JTF mission area. Also, the creation of a common "model" depicting the current common (neutral) view of JTF activities and business rules, and plan of action will further ensure the achievement of goals related to GCCS and C4IFTW.

USMC Combat Development Process (CDP) The USMC is facing one of the most difficult changes in its history. They must be able to respond effectively to increasingly diverse threats and uncertainty at a time of reduced defense spending. The situation requires them to examine and continually improve the functioning of the USMC.

To meet this challenge the CDP must effectively integrate doctrine, organizational structure, materiel, training and education, and facilities and support. The existing process is not integrated. The decision by the Marine Corps to view combat development as a single process accepts the challenge of integrating multi-agency activities and funding sources. The CDP presents a unique opportunity for broad gauge tradeoffs among materiel, training, doctrine, structure, and support facilities for cost effective defense decisions. The downturn of the national economy and shift in national priorities due to a changing world situation point to significant cuts in defense spending. The CDP aims to cut costs through improved management

of processes. This project is defining the complex interrelationships of the CDP for the To-Be "integrated" state.

As a result of the work done within the CDP BPR, a decision was made that integrating the Marine Corps' and the Navy's assessment processes would help identify and resolve programmatic conflicts earlier in the Planning, Programming, and Budgeting Process. The result will be the institution of an integrated investment balance review, a revolutionary step in presenting a budget based on capabilities derived from concepts that support the employment of the Naval Expeditionary Force.

Also as a direct result of the CDP BPR, the Marine Corps identified the need for a more direct and responsive link to the Fleet Marine Force. They now have established the Fleet Operational Need Statement, which enables the Fleet to communicate operational deficiencies directly to the combat developers for immediate corrective action. This sub-process of the CDP has been a major success story in the short history of the Marine Corps' CDP.

The performance measure for the CDP project is the CDP ability to produce combat ready Marine Air-Ground Task Forces (MAGTF's) that fulfill national security objectives for the USMC while reducing total cost.

Modeling the Air Force Objective Wing in Support of the Base Level Systems Modernization (BLSM) Program. The objective of the BLSM program is the total replacement of the standard base-level information systems that support the multitude of wing functional activities. Currently, there are about 35 standard "stovepiped," nonintegrated, noninteroperable management information systems that are used at almost all Air Force bases. Most of the software for these systems was developed 20-30 years ago to automate what are obsolete business practices today. The software has become exceedingly difficult and expensive to modify/update due to its design; moreover, the software is dependent on proprietary operating systems that are becoming increasingly expensive to maintain. Rather than take the old systems which automated obsolete business practices and simply incorporate new technologies, the Air Force leadership made a commitment to Corporate Information Management methodologies and functional process improvement tools to first establish the requirements of a modernized information system while exploiting new technologies. Hence, in March 1993, the Air Force began the Objective Wing-IDEF Project to define the system requirements.

The principal customer of base-level information systems is the wing commander and his management staff. Now, more than ever, the commander must think of the wing as a business enterprise. Like the chief executive officer of any large business enterprise, the wing commander and the "wing" need modernized information

systems to make responsive, fact-based decisions. Thus, the BLSM program embodies three main objectives; simplify, integrate and automate where necessary.

The first objective is to reengineer the current obsolete business processes through the identification of requirements for information in concert with the application of best business practices and a set of new business rules approved by the Air Force. The reengineering opportunities focus on reducing cycle time, reducing redundancies, eliminating non-value-added activities, and streamlining tasks. These will yield improvements in measures of performance such as cost, service, quality and cycle time to mitigate the reductions in manpower and resources.

The second objective focuses on the sharing of information through one integrated management information system of applications. The goal is to only enter or capture the information once and share it throughout the "enterprise" via a single, logical distributed database. During the modeling effort, priority has been given to cross-functional initiatives where possible and practical.

The last objective centers around automation of the processes and business activities, and the use of new, state-of-the-art technology. The application of technology will pay dividends with regard to the capture, insertion, and accuracy of the data.

To date, the project has identified over 200 functional process improvements that will facilitate the development of a responsive, user friendly, and open systems-compliant information system--a system called BLSM. Furthermore, analysis of the Wing-IDEF" As-Is" modeling effort has identified 28 major processes and 20 Air Force issues that hold high potential for improving the way the Air Force does business.

The BLSM program will fundamentally improve the management of our installations and the development of deployable combat capability. We will use the lessons learned from these analyses to look at improvement opportunities for installations across the Department of Defense.

Multi-Technology Automated Reader Card (MARC). The MARC project is a proof-of-principle prototype test to demonstrate the technical and operational feasibility of a multi-functional "smart" card for DoD-wide use in both a peacetime and wartime environment. The MARC utilizes integrated circuit chip (ICC), bar code and magnetic stripe technology to produce a utility card capable of satisfying multiple functional requirements within the DoD for a portable, updatable data carrier.

The MARC is designed to improve operational capabilities through functional process improvements using personally carried, updatable information technology. The MARC project was initiated in response to the proliferation of single use card

programs throughout the DoD. The combination of several automatic identification technologies on a device that is the size of a credit card and gives the MARC the versatility to interface with a variety of technologies and systems. The MARC program objectives are as follows:

Examine options for satisfying unmet requirements for updatable information in a portable medium.

Reduce the proliferation of single use, non-standard automated cards.

Provide a technology that bridges the gap between incompatible information systems that currently do not satisfy operational requirements.

The ultimate beneficiaries of the MARC will be DoD personnel in the field who will use the card to improve the speed and accuracy of transactions in such areas as medical care, mobilization for deployment, food service, transportation manifests, and accountability of equipment.

The 25th Infantry Division used the MARC to support a deployment of Division personnel to Haiti. The MARC was used to create and validate aircraft manifest rosters. In this test, the time required to produce manifest was reduced from over 4 hours down to 20 minutes through use of the MARC and the number of personnel involved in the manifesting process was reduced from 15 to 7. Testing began in September 1994 and the MARC test is expected to last from 18 to 24 months. Functional applications included in initial testing are: Field Medical Care, Composite Health Care System (CHCS) Patient Reception, Mobilization and Readiness Processing, Manifesting, Medical Evacuation and Food Service Operations. In the Field Medical test, significant time savings have been experienced in the amount of time required to process casualties through use of the MARC to enter condition and treatment data. The MARC replaces a paper medical form which was often lost or unreadable during the medical treatment and casualty evacuation process. The Department is committed to deploying a MARC that is based on commercial-off-the shelf (COTS) technology.

Tracking and Accounting for Personnel. During Operation DESERT STORM, we discovered that one of the biggest deficiencies in our personnel management practices was the inability to keep track of our service members as they deployed to theater and as they were activated from the reserves. The war was conducted as a "TDY" war. In other words, service members were deployed to theater to join units other than those of their normal assignment. Our management systems were not designed to support this kind of deployment. We spent several years after the war constructing and reconstructing the roster of service members who deployed. Similarly, we have all heard of the service members who, while serving on active duty in the Persian Gulf, received notices from their reserve offices telling them that they

were delinquent in meeting their drill requirements. A major focus of our efforts in military personnel has revolved around improving the way we track our service members in these situations. We have made significant progress already in addressing these problems through changes in management practices. We are also redesigning our automated systems to be more responsive -- following the lead of the USAF, the USMC has just completed the integration of their active and reserve systems and the Navy is in the process of integrating them. We have completed a review of a simple, affordable Personnel Accounting System, which supports all of the services in accounting for personnel in theater. The system uses laptop computers which house a data base which can be accessed by the swipe of the new Uniformed Services Identification Card. This system is now being used for deployments out of Europe and has already successfully supported Operation Support Hope, the Macedonia deployment, the Normandy deployment, and the Atlantic Resolve exercise.

Identification Card. After a full functional, technical, and economic analysis, the Department has implemented a new Uniformed Services Identification Card. Full implementation of the automated production system cost under \$5M, and saves hundreds of millions in card production costs alone. The new card is more secure, more durable, faster and easier to produce, and has potential for saving many more millions of dollars through applications. In addition to the deployment application mentioned above, other applications in place or under development include access to base food services, check cashing privileges in base exchanges, access to ships, tracking of blood testing, and check-out of equipment.

Support to Veterans. When our service members leave the military, they often need access to their personnel records. We are performing a complete review of the way the Department stores records and the process by which we provide access. This is a cross agency undertaking, with Veterans Affairs and the National Archives. The first stage of our analysis resulted in a major change to our business practices. When service members separate from the military, their medical record now goes to VA instead of storage at the service personnel records storage sites. This has already improved the timeliness of VA access to medical records from several months (or even years) to several days. We are continuing our analysis to improve access to medical records previously stored at service sites and access to the entire personnel record.

Accessioning Personnel. The process of bringing new Service members into the Armed Forces is critical to the continuation of the Volunteer Force policy. Following a review of business practices, a new system for managing the Military Entrance Processing Stations (used by all the Services) is being tested before full implementation. The Services conducted a review of their enlisted recruiting practices that resulted in a new, DoD initiative - the Joint Recruiting Information Support System (JRISS). JRISS will put new, mobile tools in the hands of the military recruiter and bring recruiters closer to the young people and their families.

Information entered once into JRISS will support the Service members throughout their military careers. JRISS will replace a number of existing systems, reducing the costs of maintaining these systems and ensuring rapid, standard implementation of emerging policies and improved recruiting methods.

Relocation Support to Service Families. Military family life is characterized by frequent relocations, often across long distances and to foreign countries. The moves sometimes mean long absences for the military member who attends school or perhaps moves ahead to arrange housing. The mobility, the financial and emotional strains of moving, and absence of adult family member all cause individual and family stress. Accurate information about the destination and PCS move allowances lay a foundation for careful PCS planning and the reduction of stress associated with the move. We developed a data base of information that has been distributed to all installations in a CD-ROM format. This application provides relocating service members and their families with accurate and timely information concerning their destination. This approach was developed as a cost efficient approach to providing access to DoD-wide relocation data.

Transition Support. The Department has implemented an extensive array of services and benefits designed to equip separating Service members with basic job-hunting skills, tools, and self-confidence necessary to secure successful employment in the civilian workforce. Each of the military Services, in conjunction with DoD, the Departments of Labor and Veterans Affairs, and state employment service agencies, has initiated innovative transition program components designed to fit the needs of separating military members and their families. Innovative automated systems are a vital component of DoD transition services. Available since December 1991, the Defense Outplacement Referral System (DORS) is an automated mini-resume registry and referral system that enables participating employers to reach Service members and spouses with skills and qualifications those employers need. The Transition Bulletin Board (TBB) allows employers to list job openings that are electronically transmitted to military installations worldwide. The Verification document (DD Form 2586) provided to all separating Service members, translates military skills and training into equivalent civilian experience. DoD transition support and services are vital to ensure that the quality of life remains high for military personnel as they prepare to leave military service and embark on civilian careers.

Support to the Reserve Component. There are several on-going initiatives that support the Reserve Component mission area. These efforts have addressed several congressional interest areas. Two of the major efforts focus on Reserve Retirement Credit and Data Management and management of the Montgomery GI Bill. Both efforts have full functional analysis and the Reserve Retirement effort has had full technical and economic analysis. As a result of the Reserve Retirement effort, standard processes for calculating, storing and retrieving retirement credits has been

established across the services. A central repository has also been established and is managed by Defense Manpower Data Center. The Montgomery GI Bill initiative has standardized and enhanced the management of the benefits to Reserve Component members across the services. This is an on-going initiative.

A third initiative that has provided benefit to the Reserve Component is the Civil Military BPR project. This effort has enabled the Reserve component members to provide assistance to their local communities and, in turn, the Reserve component members are receiving on-the-job training.

Mr. Chairman this completes my discussion of the specific case examples that you requested. I would like to touch upon a few areas of interest to the committee before taking your questions. In terms of opportunities for additional high pay-off areas, we are focusing on organizational layering in our Defense Streamlining Plan, published last October. In addition, we are focusing on cross-functional process improvements.

With respect to personnel reforms, we are focusing on training and re-training to assist displaced workers and assessing financial incentives. We also have found it important to keep our employees fully informed of their options, benefits and rights as we downsize, restructure and reengineer.

Moving on to lessons learned for BPR, the most critical is creating a "sense of urgency." And what I mean by this is that until people understand and accept that there is a "need" for change, they don't become "partners" to the change process. We have also learned that successful reengineering efforts have these attributes in common: 1) top management involvement and commitment, 2) "stretched" goals, 3) line management commitment to implementation, and 4) a focus on high level core processes. We are currently incorporating these attributes into our planning documents.

Mr. Chairman, I have described a small sample of our reengineering projects and I am sure you can recognize the significant results that have or will be achieved. The size and complexity of the Department will force us to expand our reengineering, as we adapt the DoD to meet its evolving challenges. One of our key challenges is to focus on the reengineering of our major cross-functional processes. As we proceed, we will closely examine the lessons learned from private industry and other government agencies, including the valuable contributions by GAO. It is our assessment that reengineering will become even more important as agencies implement the requirements of the Government Performance and Results Act (GPRA) of 1993. We have no choice but to move forward. Reengineering is an essential strategy to get there. Moving back is not an option.



STATEMENT OF

GARY KAVANAGH

DEPUTY DIRECTOR, BUREAU OF PROGRAM OPERATIONS

HEALTH CARE FINANCING ADMINISTRATION

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

FEBRUARY 2, 1995

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss actions the Health Care Financing Administration (HCFA) has taken to re-engineer its operations to better meet the needs of Medicare beneficiaries, providers and suppliers.

It is often said that one learns through experience and HCFA is no exception. Medicare serves over 36 million beneficiaries and processes over 700 million claims per year. In order to process and pay such a large number of claims, Medicare contracts with 43 fiscal intermediaries to process Part A claims and 34 carriers to process Part B claims, including those for durable medical equipment (DME), prosthetics, orthotics and supplies. Several years ago, in listening to the needs of Medicare providers, suppliers, and beneficiaries, HCFA identified significant problems with our procedures for processing claims for DME and related items. And those same sources have helped to provide successful solutions.

DME Problems Identified

In 1991 we began looking systematically at the way we process claims for DME. In consultation with our customers and our partners, we heard that we needed to focus more on customer service, to establish more uniform requirements for claims submission and adjudication, and to do a better job of preventing improper payments.

Prior to 1993, suppliers of DME submitted their claims to one of 34 different carriers for processing and payment. The biggest portion of these carriers' workload was claims submitted by physicians and this is where the carriers' efforts were concentrated. DME suppliers and beneficiaries often complained of slow claims payment and poor service on their inquiries. Carrier coverage policies and decisions for DME items were not consistent and often varied considerably among carriers across the country. National supplier chains submitted claims to several carriers, often with differing results. In a number of instances, suppliers sought out the carriers with the least restrictive coverage policies and submitted their claims there; this practice is referred to as "carrier shopping." As a result, DME claims were often open to fraud and abusive practices.

Electronic claims submission requirements also differed between carriers, requiring suppliers to submit their claims in different formats. In addition, HCFA had no single focus to accumulate and analyze DME claims information for program management.

We also discovered that some suppliers used multiple billing numbers. DME suppliers must have a number which is used for processing claims and establishing pricing and utilization profiles. We found that it was very easy for suppliers to obtain multiple supplier numbers, and that we lacked specific and uniform standards which must be met before one could obtain a supplier number. Using multiple numbers, suppliers who were subject to review under one number could reenter the system

under another without our knowing this had happened.

In partnership with suppliers, providers, and Medicare beneficiaries, HCFA sought to design solutions through consistent administrative actions to utilize current technology while re-engineering the processes then in place. For example, to achieve more sophisticated and uniform coverage policies, to improve claims processing, and to help prevent fraud and abuse, we concluded that we should concentrate all processing for equipment and supplies in a small number of specialized carriers. We believed that the use of a few regional carriers would greatly reduce the variance in coverage policy and decisions, and utilization parameters among carriers. Greater efficiency would be achieved because each carrier would have a trained pool of experienced personnel able to handle the DME claims more effectively and to process claims more quickly and accurately.

Starting in the Fall of 1993, HCFA began consolidating processing for DME claims at four durable medical equipment regional carriers (DMERCs). This consolidation also allowed for standardized submission of electronic claims. All suppliers are now able to use a single format to submit their claims to Medicare. This format results from a major redesign of the previous process, which had well over 30 different electronic formats. The resulting variability had been a major deterrent to electronic billing.

Through these four carriers, we have achieved greater efficiency not only in the

processing of claims but in the development and application of coverage policy and medical review. In addition, one of the DMERCs has the additional function to conduct statistical analysis of data for all four regional carriers. The statistical analysis DMERC (SADMERC) analyzes these data to track utilization, quantities ordered, and potential overutilization by certain suppliers by comparing them to both their regional and national peers. This arrangement provides a quick and efficient way to detect aberrancies that could not have been discovered in the past. This information can then be used in developing new coverage policy or pre-payment screens for use by the DMERCs. Pre-payment screens may be used to identify special types of claims, particular suppliers or special claims submitted by particular suppliers.

To solve the problem of carrier shopping, we totally revised our policy on carrier jurisdiction of DME claims. Previously, claims for DME were paid based on the location of the billing office. Beginning October 1, 1993, suppliers were required to submit their claims to the regional carrier responsible for the geographical area in which the beneficiary maintains a permanent residence.

HCFA has also moved to eliminate the use of multiple billing numbers. Starting in October 1993 we established a new supplier number application process for 120,000 DME suppliers through a National Supplier Clearinghouse (NSC). The NSC maintains a national file on DME suppliers.

In order to be able to obtain a new supplier number and bill the Medicare program each supplier must complete a uniform supplier number application which must be approved by the NSC. Through this process, we are able, for the first time, to have comprehensive information about our suppliers that can be used to reliably detect abusive suppliers who attempt to relocate their operations under a different name. For example, the NSC can provide information to carriers about aberrant suppliers and those who do not have valid supplier numbers. The carriers can then stop payment on falsely billed claims and suspend billing numbers.

Through these steps, HCFA has been able to ensure more appropriate and consistent payment of DME claims nationwide. Since the consolidation of regional carriers was just completed this past Fall, it is too early for definite results. However, we believe we are already capturing significant savings due to lower administrative costs and cost effective pre-screening edits. By consolidating our operations, utilizing knowledgeable personnel and using cost effective technology we have created a more efficient and manageable claims processing system that better serves Medicare beneficiaries, providers, suppliers, and the American taxpayer.

The lessons learned during the consolidation of DME claims to four regional carriers have been invaluable as we plan for other improvements to the Medicare program. The knowledge we have gained will make future re-engineering efforts smoother for our beneficiaries and providers. We know this because our customers provided

guidance and feedback throughout the transition. This was most dramatically exemplified when Medicare beneficiaries and the supplier community publicly acknowledged HCFA's efforts to improve services and its spirit of cooperation and teamwork at the end of the DMERC transition.

We learned that listening to our customers' expectations is the most valuable resource to target process improvement. By taking actions to meet those expectations, processes were redesigned and HCFA discovered new and different perspectives on how to effectively utilize existing systems. We look forward to employing these newly practiced skills in the future.

The Future: The Medicare Transaction System

As we look toward the 21st century, Medicare is now working on the design of a single, national automated claims system that will be able to process all types of claims, both Part A and Part B, more efficiently. The Medicare Transaction System (MTS) is scheduled to begin operations in late 1997 with completion by late 1999. This past Spring we awarded a contract to GTE Government Systems to work with us to design and develop the system.

Presently, our claims processing is done by 77 fiscal intermediaries and carriers using 11 automated systems at 62 sites. Under MTS, claims processing will be performed at a limited number of operating sites, probably less than ten. Our current

contractors will then be able to concentrate their efforts on customer service and program safeguards. Under MTS, claims will be processed more easily, more efficiently and in a more cost effective manner. We believe when MTS is fully implemented administrative savings will be significant because processing claims will be conducted by a single automated claims system that is assessable to all carriers, providers and suppliers. Efficiencies will be achieved by greater uniformity in coverage and payment policies, consolidation and better management of data, and better ability to monitor and detect fraud and abuse.

The MTS is more than a claims processing system. It will truly provide better service to beneficiaries and providers while allowing much more control of program expenditures. This system will benefit providers by enabling them to ascertain the status of all their claims through the use of one electronic query. It will also allow providers to obtain information on a beneficiary's entitlement and other insurance policies the beneficiary may have that would pay benefits -- either primary or supplementary to Medicare.

The MTS will also enable Medicare contractors to provide more timely, accurate and complete responses to beneficiary inquiries. A single inquiry to any contractor will provide the status of all of a beneficiary's claims.

The lessons learned from the DME transition are fresh in our minds as we proceed to

implement MTS. We will be working closely with our contractors, providers and beneficiaries to assure that this new system will be beneficial to those we serve.

Conclusion

HCFA is committed to continuous improvement in order to better serve our beneficiaries and providers. We have recently developed our first strategic plan to guide the Agency's improvement activities. We will continue to make necessary improvements through the proactive use of administrative solutions. We look forward to working with the Committee on these and related issues. I would be happy to answer any questions the Committee has at this time.

The New York Times

TUESDAY, SEPTEMBER 20, 1994

Teen-Age Mothers Helped By Ohio Plan, Study Finds

By SUSAN CHIRA

A closely watched Ohio program that docks or increases welfare payments to prod teen-age mothers into attending school is also pushing more of these young women to complete high school, a study that is being made public today has found.

The program, Learning, Earning and Parenting, or LEAP, has interested policy makers because all current proposals to overhaul the welfare system require teen-age mothers to finish school. That requirement is based on the belief that better educational credentials will allow them to get off welfare and win better-paying jobs.

The study followed 1,700 Cleveland teen-age mothers on welfare. It found that the program's combination of financial incentives and deterrents, along with its package of social services, persuaded 5.6 percent more mothers to graduate from high school or to receive a high school equivalency diploma over a three-year period, compared with a control group of mothers outside the program. And the program is comparatively inexpensive, costing \$971 per teen-ager over the three years.

"These results are sufficiently encouraging to suggest that other states consider this," said Judith M. Gueron, president of the Manpower Demonstration Research Corporation, a nonprofit, New York-based research group that conducted the study.

Mary Jo Bane and David Ellwood, assistant secretaries at the Department of Health and Human Services who have helped shape President Clinton's plan to overhaul welfare, issued a statement today saying the study's results offered evidence that the President's plan could work. The proposal would also allow states to use financial incentives like those in the LEAP program.

Researchers found that the program was most successful when it reached teen-age mothers before they dropped out. Of those still in school, 8.8 percent more program participants than nonparticipants graduated, the study found. But among mothers who had already dropped out, that difference narrowed to 2.6 percent, a statistically insignificant gain.

The program operates in all 88 counties in Ohio. It requires that all teen-age mothers under the age of 20 and on welfare attend school or have

\$62 a month deducted from their welfare payments. If they attend class regularly they receive a bonus of \$62 a month. Their monthly welfare checks vary, from \$212 with the penalty to \$336 with the bonus.

A previous study of the program found that improved school attendance was linked to these incentives and deterrents in combination with the services that it offers, including free child care and transportation to or from school or a child care center, and a social worker assigned to each teen-ager. Several other states are trying similar types of programs, but few offer social services as part of their programs.

The Cleveland study also found that an expanded and more expensive version of LEAP only marginally increased the program's success. This enhanced version, which costs \$1,965 for each teen-ager, offered in-school child care, a case manager stationed in the schools themselves and community outreach services.

But David Long, a co-author of the study, said the enhanced program, like the regular program, worked

A carrot-and-stick approach is pushing more young women to finish high school.

much better for teen-agers in school, prodding 7 percent more of them to graduate compared with classmates in the regular program. What seemed central to the enhanced program's success was the presence of a case manager in the schools who acted as the girls' advocate.

But the researchers cautioned that the program alone was not enough to raise graduation rates significantly. Over all, only 21.1 percent of the LEAP teen-agers completed high school. To make more of a difference, Mr. Long said, schools themselves need to become more attractive to teen-age mothers, who told researchers they felt unsafe and uncared for.

It is also too early to tell whether the program will help teen-age mothers find jobs or get off welfare, although the researchers hope to determine this in later evaluations.

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Purpose

Nonpayment of child support contributes to childhood poverty as well as to increases in the number of families receiving welfare.¹ Today, more than one-fifth of America's children live in poverty, and it has been estimated that half will live in single-parent families at some point in their lives.

To help obtain the financial support noncustodial parents owe their children and to help single-parent families achieve or maintain economic self-sufficiency, the Congress established the intergovernmental child support enforcement program in 1975. In 1992, the federal Office of Child Support Enforcement (OCSE) reported a nationwide caseload of about 15.2 million cases, about 60 percent of which received welfare.

The Chairman of the Subcommittee on Federal Services, Post Office and Civil Service, Senate Committee on Governmental Affairs, asked GAO to review the child support enforcement program to determine how the federal government could improve services to the states and to the families that depend on the program. GAO's review focused on (1) whether the program has essential management tools in place at the federal level to fulfill its mission, (2) how well OCSE has fulfilled its role in fostering the development of state child support enforcement programs, and (3) what the state programs are doing to overcome barriers hampering their efforts. GAO also examined the implications of welfare reform proposals and the impact of the Government Performance and Results Act of 1993 (GPRA).

Background

The federal government and the states share child support enforcement responsibilities. OCSE, within the Department of Health and Human Services (HHS), is responsible for providing leadership, technical assistance, and standards to develop effective state programs, which actually deliver child support enforcement services to families. Services include establishing paternity and support orders; locating noncustodial parents; updating support orders to be current with a noncustodial parent's income; obtaining medical support, such as medical insurance, from noncustodial parents; and collecting support payments. To help ensure state program effectiveness, the federal government uses a "carrot and stick" approach involving incentive payments, audits, and penalties. The federal government matches about two-thirds of state program administrative costs and makes incentive payments to states based on collections.

¹In this report, "welfare" refers to cash assistance provided to families under the Aid to Families With Dependent Children (AFDC) program.

Federal and state governments first became involved in child support enforcement activities with the aim of recovering government welfare costs. Child support owed by noncustodial parents of families receiving welfare was to be collected by state and local child support programs and then returned to the government, with a small portion going to the families. As the number of families receiving welfare rose in the 1970s, the Congress incorporated existing state and local efforts into the national child support enforcement program.

Over time, the program expanded beyond the original aim of recovering welfare because the Congress believed that early enforcement of child support obligations could help prevent families' need for government support. For example, families that are not receiving welfare but that request program services must be served equally.

Results in Brief

Greater federal leadership coupled with equally intensive state efforts could better position the national child support enforcement program to serve the families that depend on it. Dramatically increasing numbers of children needing support—the child support enforcement caseload grew 180 percent between 1980 and 1992—are focusing attention on federal and state efforts to enforce parents' responsibilities to support their children. However, these efforts have been hampered by management weaknesses that keep OCSE from (1) effectively leading the program and the states, (2) judging how well the program is working, and (3) setting effective policies.

Because of declining resources, OCSE has diminished the level of technical assistance provided to state programs. Also, various organization and staffing changes have created communication problems between federal and state program officials. OCSE audits and data collection efforts, while satisfying legal requirements for monitoring and tracking the states' programs, do not provide either OCSE or the states with adequate information on program results. Now, under the impetus of GPRA, OCSE is getting started on management improvements that could position it to better serve states and families. OCSE has also proposed changing the incentive payment structure to encourage improved state performance.

While the federal role is substantial—most program funding is federal—child support enforcement is very much a state activity. Today, states face common barriers such as increasing workloads that outpace resources, inadequate computer systems, and fragmented authority and

unstandardized procedures among others. In response, states have developed a number of strategies, including augmenting their staffs with volunteers and contracting with private collection agencies, improving automation to help staff be more productive, and using innovative enforcement techniques. Some of the techniques various states have adopted are (1) requiring employers to report newly hired employees so parents who owe child support can be located, (2) using central lien indexes and tax record matching so parents' assets can be located, and (3) revoking driver's and professional licenses to encourage parents to pay what they owe.

Many welfare reform proposals would further expand child support enforcement. Unless OCSE takes steps to strengthen its leadership and management of its current program, it may have difficulty implementing any new responsibilities.

Principal Findings

The Child Support Enforcement Program Has Lacked Essential Management Tools

The child support enforcement program has lacked certain essential management tools to assess and improve current program performance. well-articulated mission, programwide planning and goal-setting, and accurate data on program performance have not been available to guide program management.

As the program expanded beyond welfare recovery, its mission became increasingly less clear. Legislative amendments expanded program effort to include families not receiving welfare and activities, such as medical support enforcement, that do not focus directly on collections. In practice this expanded mission has given the program competing priorities—without guidance from the federal level on how to manage those priorities.

In the face of the program's expanded mission, OCSE's planning efforts focused on the agency and its processes, not on outcomes for either the national program as a whole or its own operations. Nor did these efforts seek input from key stakeholders, such as the Congress and the states. Only one national goal exists for the program, and this is a congressional mandated standard for state performance in paternity establishment. No

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in response to GPRA requirements, OCSE is beginning a planning discipline that identifies priorities and outcomes.

The child support enforcement program has also lacked accurate and consistent data that could be used to set goals for, assess, and improve program performance. Despite 20 years of required performance reporting, OCSE has not developed universally understood data definitions, and states collect data in ways that make aggregation and comparison impractical. OCSE and state officials acknowledge that needed data are not available, and OCSE has taken some actions on this issue. However, as of December 1994, OCSE was not in a position to know how the national program was actually performing.

In concept, federal incentive payments reward state programs according to performance, but this funding mechanism has yet to achieve its potential. In practice, all states—regardless of performance—have received some incentive payments. Moreover, the amount of incentive payments depends on a state's collections and does not reflect other important activities, such as paternity establishment and medical support enforcement. The impact of the incentives is limited because states are not required to use incentive funds to expand their child support enforcement activities. Some states have used incentive payments for activities other than child support enforcement; others have used federal payments to offset the state part of matching funds for child support enforcement, according to a 1991 report by HHS' Office of the Inspector General.

OCSE Has Not Effectively Fostered State Program Development

As the Congress originally envisioned it, OCSE's role included fostering state program development by providing technical assistance and training, developing standards, and exercising federal oversight through audits. As HHS experienced workforce reductions in the 1980s, however, OCSE resources diminished. Technical assistance and training, which had formed a large part of OCSE efforts, virtually disappeared. In several instances, regulations were finalized after the effective dates of a law. In addition, an HHS-wide reorganization left OCSE with no organizational control over those HHS regional staff serving as contact points for the states on some program matters. State program staff had to contact various offices within HHS for different child support enforcement matters, and miscommunications between OCSE, HHS regional staff, and state program staff contributed to strained working relationships.

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By the early 1990s, OCSE's monitoring role had come into greater prominence, with more than half of remaining OCSE staff devoted to compliance audits. These audits focused on state compliance with federal requirements for administrative procedures and service delivery rather than on outcomes of state actions, such as how many paternities or support orders were established. State program staff said that while some audits had helped them gain state legislative support, the audits concentrated too much on administrative details and were too untimely to be a useful management tool for them, with audit reports sometimes issued 2 years after the period audited.

OCSE recognizes that while the audits have spurred state actions, the audit approach needs to be changed to provide better insight into state program performance. OCSE is seeking to shift the emphasis from compliance with administrative procedures to ensuring state data integrity. OCSE, however, believes that this shift will require a legislative change.

State Child Support Enforcement Programs Face Common Barriers, Use Multiple Strategies

Although states have received substantial federal funding for program development, at least five common barriers hinder state child support enforcement efforts:

- Workload continues to grow and become more time-consuming. Estimate of worker caseload ranged from 300 to 2,500 cases per worker, and officials believe that many cases now take more time than before. For example, the growing number of out-of-wedlock births means that more cases need paternity establishment—more than 40 percent of the caseload in one state.
- Child support enforcement program functions are only partially computerized. Some states do not have statewide computer systems. Other states have computerized some functions but others remain manual. One state had the computer capacity to seize noncustodial parents' bank assets but did not have caseload intake and parent location functions computerized. Another state had extensive case tracking capability but lacked the technology to identify assets and levy administrative liens through automation.
- State program staff lack control over local units. Some states wanted more uniform state implementation and were frustrated by dispersed program control. One state's audits documented that some local districts failed to implement state regulations for case processing. In another state, some judges did not follow state procedures.

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- State legislatures do not always support state programs' proposed initiatives. Some states have been more successful than others in getting legislative support for new enforcement techniques, such as in-hospital paternity establishment; revocation of driver's and professional licenses of noncustodial parents who are delinquent in support payments; and using administrative, rather than judicial, processes for establishing support orders.
- Referrals from welfare offices lacked information that the child support enforcement program needed to do its work. GAO found in earlier work that poor coordination between welfare and child support agencies resulted in inadequate information about noncustodial parents, including identity, location, and earnings data.² The experiences of the state programs that GAO reviewed suggest that very little has changed.

States that GAO reviewed were at different points in developing or adopting strategies to deal with the barriers they faced. The strategies included adding staff; refining AFDC intake procedures to facilitate child support enforcement; contracting out some functions to private entities; and using volunteers. States also used various techniques to garner legislative support and were making increased use of automation.

The actions some states have taken also show that many decisions about adding resources, improving automation, and expanding the program's administrative processes lie within the control of state leadership and reflect the investments states can make in the program without the impetus of a federal mandate.

Welfare Reform Presents Additional Opportunities and Challenges

All the welfare reform proposals that GAO reviewed would add new enforcement tools but could also require more of OCSE and the states. In addition, some of the proposals would change the funding structure and OCSE's audit approach. Some proposals require greater centralization of state operations and give some states tools that they have sought, such as employer reporting of new hires or the ability to suspend professional or driver's licenses. However, new and expanded responsibilities may also strain OCSE's ability to effectively implement changes and increase state workloads. New demands under welfare reform could include broadening OCSE's role in developing and coordinating expanded automated systems at the state or federal level. In addition, state programs may also need greater

²Child Support: Need to Improve Efforts to Identify Fathers and Obtain Support Orders (GAO/HRD-87-37, Apr. 30, 1987).

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technical assistance from OCSE and HHS to ensure effective state implementation.

Recommendations

GAO is making several recommendations to the Secretary of Health and Human Services to strengthen OCSE's management and leadership. Among other things, these recommendations are aimed at establishing performance goals for OCSE; promoting greater federal accountability; reengineering OCSE audits of state performance to be more outcome-oriented rather than process-oriented; and revising the program funding structure to better support program priorities.

Agency Comments

HHS stated that the report provides a balanced appraisal of OCSE and the national program's accomplishments, and that GAO's recommendations are well taken. HHS provided additional information about actions that it has planned or has in progress that address several of GAO's recommendations (See app. V.) While most of HHS' actions are appropriate, GAO has some specific concerns about HHS' response to establishing performance goals for OCSE; promoting greater federal accountability; and changing the audit and funding structure. (See pp. 95-97.) HHS also provided technical comments, as did program officials from selected states and several child support enforcement experts; their comments have been incorporated as appropriate.



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